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ON
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ROYAL COMMISSION ON TRANSPORTATION

OTTAWA, ONTARIO,
TUESDAY,
NOVEMBER 29th, 1949.

THE HONOURABLE W.F.A.TURGEON, K.C. LL.D.		- CHAIRMAN
HAROLD ADAMS INNIS	-	- COMMISSIONER
HENRY FORBES ANGUS	-	- COMMISSIONER

\- - - -

G.R. Hunter,
Secretary

P.L.Belcourt,
Asst.Secretary.

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COUNSEL APPEARING:

F.M.Covert, K.C. G.C.Desmarais, K.C.	Royal Commission on Transportation
Hugh E. O'Donnell, K.C. H.C.Friel, K.C.	Canadian National Railways
C.F.H.Carson, K.C. F.C.S.Evans, K.C. I.D.Sinclair,	Canadian Pacific Railway
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J.J.Frawley, K.C. H.G.Nolan, K.C.	Province of Alberta
C.W.Brazier	Province of British Columbia
F.D.Smith, K.C.	Province of Nova Scotia; Transportation Commission of the Maritime Board of Trade.
J.Paul Barry	Province of New Brunswick
F.R.Hume M.L.Rapoport	Canadian Automotive Transportation Association
R.Kerr	Board of Transport Commissioners
W.E.Darby, K.C.	Province of Prince Edward Island.

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MORNING SESSION

J. O. GOODMAN RECALLED

EXAMINATION BY MR. HUME RESUMED

MR. HUME: Mr. Chairman, there are only two matters left with which I want to deal in-chief with Mr. Goodman, and the first is in the nature of a correction of the submission on page 15. Under the heading "Discrimination against Highway Transport", the third paragraph of that heading deals with the subsidies on movement of grain, and the last sentence incorrectly states the situation, and I wish to have that corrected. The last sentence reads as if it indicated that the carrier received the subsidy. In effect, it is not the carrier, it is the consignee. I would like Mr. Goodman to explain the situation.

THE CHAIRMAN: The word "motor carrier" should be struck out?

MR. HUME: I think when Mr. Goodman explains it, it will be apparent as to what is wrong with it.

A. Actually, my lord, the subsidy is paid to the net user, the farmer, and the intent of the order in question provides for an increased subsidy to farmers who receive their grain by rail as against those who receive their grain by truck. I have made a note of the actual wording which I would suggest should be included to replace the sentence referred to:

> "As a result of the new order purchasers receiving their grain by motor truck do not receive that portion of the subsidy payable from lakeports to inland points, whereas the subsidy continues for those using railways."

THE CHAIRMAN: Q. What was the position before the order?

A. Before the order the subsidy was payable where the grain or the mill feeds was ultimately delivered by rail or by truck.

Q. To the consignee?

A. Yes, sir.

Q. And now what is the situation?

A. Now, it is only payable when the consignee receives his grain by rail.

Q. If he receives it by truck he gets nothing at all?

A. That is correct; that is on the inland part of the haul; from the lakeport to the inland mill.

Q. Is there much grain moved by truck?

A. There is a considerable amount moved from the ports of Goderich, Owen Sound and Toronto. It comes in from the lakehead by boat and to be delivered by truck from these ports to inland mills.

Q. Has that movement decreased since this new Order has been in effect?

A. The movement is, to the best of my knowledge, stopped by truck to those mills which are located at railway points, but there are mills which are located at points not served by rail, and the grain is moved to these mills by truck, with the result that the mills have either absorbed the loss in subsidy or passed it on to the farmer. There has been a considerable amount of traffic diverted from the highway to the railway as a result of this discriminatory order.

THE CHAIRMAN: Mr. Hume, will you tell us more about this? You are talking about a subsidy on the movement of grain from lakeports to inland points.

MR. HUME: As I think Mr. Goodman has explained, the grain arrives at the ports by boat.

THE COMMISSIONER: What kind of grain have you in mind?

MR. HUME: There are feed grains - - -

THE CHAIRMAN: Q. Is it feed grain only?

A. Western mill feed and western grain.

Q. What subsidy was there on western wheat that might be shipped to a mill in Ontario?

A. I am not familiar. I have the Orders here and that subsidy refers to - - -

THE COMMISSIONER: Cannot we clear this up as we go along?

MR. SINCLAIR: It is feed grain, my lord. That is the feed grain subsidy we have talked about.

MR. O'DONNELL: It is Order In Council P.C. 1515.

THE CHAIRMAN: It is feed grain?

MR. HUME: It should be feed grain.

THE CHAIRMAN: That is by virtue of a Order In Council passed under the War Measures Act?

MR. O'DONNELL: It is covered by two Orders-in-Council P.C. 1515 of the 8th April, 1948. There is a later one.

THE COMMISSIONER: What is the first one?

MR. O'DONNELL: P.C. 1515 of the 8th April 1948, and then P.C. 3803 of the 26th July 1949.

THE WITNESS: There is still a later one, P.C. 5434 that increased the subsidy 50 cents, from $5.50 to $6.00.

MR. HUME. Q.. It did not change the other terms?

A. No, unfortunately.

THE CHAIRMAN: Do I understand that up to a certain time a subsidy on the movement of this feed grain was paid when the grain was moved by truck?

MR. HUME: Or by rail. They did not differentiate.

THE CHAIRMAN: Is that subsidy cancelled when grain is moved by truck?

MR. HUME: Yes, Mr. Chairman.

THE CHAIRMAN: Is it increased when it moves by train?

MR. HUME: It is increased in this last Order by 50 cents. I do not know the total amount but it was increased once and it did not change the truck situation. It still is not payable if it is moved to these inland ports by truck.

THE CHAIRMAN: Was that increase comparable to the increase in freight rates?

MR. HUME: I think that was the reason.

Q. What was the date of that increase?

A. November 17th, 1949.

THE CHAIRMAN: It took the same increase as was made applicable to all rates?

MR. HUME: Yes, Mr. Chairman.

THE CHAIRMAN: Q. Does the Order-in-Council say something about discontinuing the subsidy on grain moved by motor transport?

A. No, not in the rder in Council itself. The later Order in Council merely said that the subsidy will be paid on shipments transported by rail or boat. The early Order in Council of the 8th April, 1948, said that the subsidy would be paid regardless of whether it was moved by rail or truck.

Q. Do you know whether any representations have been made about that to the Government?

A. There have been representations made; they are still being made. As a matter of fact, I understand that the millers are meeting with the Deputy Minister of Agriculture to-morrow.

MR. HUME: Q. Have representations actually been made that you know of?

A. Yes, sir.

Q. That is all I have to correct on that point. The second and last thing, Mr. Chairman, is to complete the record with regard to a discussion that I had with Mr. Gaffney which appears in Volume 48 of the Transcript of Evidence at page 9279, when I was discussing with Mr. Gaffney the ability of manufacturers to disperse their manufacturing processes, and in connection with that discussion, which I do not intend to repeat, there was no suggestion of criticism of the railways. I mentioned that because of a movement by the General Motors Corporation of certain units from St. Catharines to Oshawa, and asked Mr. Gaffney whether that would have been possible to have that situation without the truck, and his answer was "of course, it would - quite possibly by rail". I asked him "well, why aren't the goods from the McKinnon Industries in St. Catharines being shipped by rail to Oshawa?" and his answer was "I think the rate is the answer to that". On the next page the discussion continued, and I said: "Is it true that if the rate was the answer, you could put in a competitive rate on that movement?", and he said "we could "? So my next question was: "So that the rate is not altogether the answer as to the movement?", and he said: "Probably not; I suggested to you that rate was part of the answer." Mr. Goodman has facts regarding that

movement.

Q. Mr. Goodman, would you be good enough to explain what the situation is with regard to that.

A. I should at the outset like to point out that the carrier company involved is the Consolidated Truck Lines Limited. They are common carriers with their Head Office in St. Catharines. They have been in business since 1925. They are one of our most reputable concerns. According to the information given to me by their General Manager, who happens to be the President of my Association, they have been moving this traffic since 1930. It consists of axle assemblies. On October, 1945, their rate was 29¢ per hundred pounds. The railway at that time, as covered in their Tariff No. 295 which is known as the "Dynamite Tariff", charged 22¢ or 7¢ less than the prevailing truck rate.

(PAGE 10490 FOLLOWS)

The shipper diverted the traffic to the railways and the railways carried it until May 1946 when the traffic came back to the motor carrier at a rate of 24¢, which was still two cents higher than the prevailing rail rate.

The carrier's net position, however, was considerably improved as they put on heavier equipment, and as a result they were able to move 120 assemblies at the 24¢ rate as against 64 assemblies which they had previously moved at the 29¢ rate.

The present rate by truck is 31¢, that is exactly the same as the present railway rate. The traffic continues to move by motor truck.

Q. Mr. Goodman, you said that it switched from truck to rail in October 1945 and that it was moved by rail up to the following May 1946, is that correct?

A. Yes.

Q. And do you know the reason why it went back to the truck at a rate of 24¢?

A. Well, the information that was given to me was that the service by rail was not as convenient as that by truck. Actually, and I have seen the movement, what happened was that the truck would back right up to the assembly line of McKinnon Industries and these assemblies, axle assemblies, were taken off their assembly line on skids, moved right on to an open truck. The truck moved them to St. Catharines, backed up to the General Motors assembly line, and the skids were taken right off the truck and moved right on to the General Motors assembly line. So the truck movement was actually a chain in the assembly line performance between the two plants. The information I was given was that the railways could not provide as convenient a service as that.

MR. HUME: Now, Mr. Chairman, Mr. Goodman, as I said yesterday, is available for any questions in connection with the submission dealing with either agriculture or agreed charges.

EXAMINATION BY MR. COVERT

MR. COVERT: Mr. Chairman, there is one question I wanted to ask Mr. Goodman about the agreed charges.

Q. I wonder if you would turn to page 19 and in the first paragraph, the last part, you say:

> The Transport Act of 1938 gives to carriers by water and air an opportunity to defend themselves but denies such an opportunity to carriers by motor vehicle.

Now, my understanding as to that was that the reason that carriers by water or air could come in and make a protest was because they were both regulated.

THE CHAIRMAN: They were both what?

MR. COVERT: Regulated.

Q. But that truckers were not regulated, therefore they should not be given an opportunity to come in. Would you care to say anything about that?

A. They were regulated under the Act in question.

Q. That is right.

A. That is correct, yes sir.

Q. And I think it was for that reason that they were given the opportunity to come in and oppose an agreed charge as affecting their business.

A. That is my understanding, sir.

Q. Yes. And presumably if the truckers had been regulated under the same Act they would have been given the same opportunity.

A. We can assume that.

Q. Yes. Now, I wondered if perhaps, Mr. Goodman, you could also answer me this: Your brief or the submission of your Association indicates a railway should not be allowed to go into the trucking business and you say that all forms of transportation should be independently owned. I think that is the substance of that submission?

A. Yes, sir.

Q. Now, does that mean that you would not allow a railway to own a steamship line or an air line?

A. Well, frankly, Mr. Covert, I don't think we gave any consideration to that at all in our deliberations.

Q. It was really trucking you were considering?

A. Yes, sir.

MR. COVERT: I think that is all I have.

THE CHAIRMAN: Any other questions?

CROSS-EXAMINED BY MR. EVANS

Q. Mr. Goodman, on the question Mr. Covert asked you, you, I should think, would concede that the principle would be the same whether the railways would be prohibited from carrying on a trucking business or a steamship business, depending on whether the view was being expressed by a steamship operator or a truck operator?

A. No, I would not agree with you, Mr. Evans. We were only concerning ourselves with the matter of land transportation.

Q. I quite agree, but as a pure matter of principle, if your view were to be justified because you were in the trucking business, I suppose one might say that a steamship operator would be similarly justified in taking the same position with regard to the right of a railway to own a steamship?

A. I would not care to comment on that.

Q. You would not care to comment on that?

A. No.

THE CHAIRMAN: Any other questions?

MR. O'DONNELL: Just one question, my lord.

CROSS-EXAMINED BY MR. O'DONNELL

Q. Mr. Goodman, your Association objected to the agreed charge provisions of the Transport Act, did they not?

A. Yes sir.

Q. And did not wish to be regulated in accordance with those provisions?

A. I would not go as far as that. Our objection was twofold. We had first in 1931 objected to being regulated by federal authority and in 1948 when the Transport Act was being considered we objected to the agreed charge principle.

Q. Yes. And the agreed charge principle was put into the Transport Act for the express purpose of assisting the railways from the point of view of enhancing their revenues?

A. That was the railways' submission at that time.

Q. That was why the provisions were put in, was it not?

A. Well, that was the railway argument.

Q. Yes. And in that Act itself we find the provision --

THE CHAIRMAN: Will you speak louder, Mr. O'Donnell?

MR. O'DONNELL: Yes, my lord.

Q. And in the Act we find the provision that the revenue position of the railways must be examined by the Board of Transport Commissioners in approving of any agreed charge. You are aware of that?

A. Yes, sir.

Q. You say at page 18 that the agreed charge, the end of the first paragraph, is prejudicial to the small

business man." Why do you say that? The rate is the same, is it not, on one car and on a number of cars?

A. That is quite correct, under the agreements that are in effect at the present time. But there are many small business men who cannot perhaps comply with the requirements of turning all their traffic over to the railways, because of location of their plants.

As a matter of interest, I have examined all the agreed charges and I cannot find one agreed charge that is in effect in the Maritimes, and there we have a great number of small industries.

Q. The agreed charge --

THE CHAIRMAN: Pardon me a moment. Are they all in Ontario and Quebec?

A. No, there are some in Saskatchewan, some in Manitoba.

MR. O'DONNELL: All over the country.

Q. They are generally spread over the country?

A. Except in the Maritimes -- none in the Maritimes whatsoever.

Q. And that might be accounted for by the fact that the rates in the Maritimes are sufficiently low that they could not be made much lower?

A. I would not want to answer that question.

Q. You spoke of a shipment or movement of axles from St. Catharines to Oshawa, which you say goes by truck. The same company uses moulding sand, does it not, the McKinnon Company?

THE CHAIRMAN: Use what?

MR. O'DONNELL: Moulding sand.

THE WITNESS: I do not know, sir.

MR. O'DONNELL: Q. My information was that moulding sand, where the rate was not as attractive possibly as the rate on

axles, was moving by rail. Have you any information about that?

A. No sir, nor do I know whether the trucker has refused to carry that, either.

THE CHAIRMAN: Q. On that point, you told us yesterday, Mr. Goodman, that the truckers in general are equipped to carry all sorts of traffic, just as the railways are?

A. Yes, sir. We even carry railways.

Q. You even carry railways?

A. Yes, sir. As a matter of interest, there was a movement of four steam, four railway engines, and twenty railway flatcars, moved from the Beauharnois Valleyfield No. 3 Dam to Beauharnois, Quebec,a distance of 25 miles, moved by truck in 1946.

MR. EVANS: Probably a little cheaper than to put in a track to move them.

THE CHAIRMAN: Q. I raise this question because we have heard something to the effect that the railway had to carry all the cheap commodities and the truckers not. What about that? We have one statement now, Mr. Goodman says that trucks are equipped to carry everything that the railways carry. That is what you said?

A. Yes, sir.

Q. Now, do they carry these cheap commodities?

A. Yes, sir.

MR. EVANS: Q. For-hire trucks?

A. Yes, sir.

MR. O'DONNELL: Q. For all distances?

A. No, sir.

THE CHAIRMAN: Well, for what distances?

A. It would vary. I don't know of any commodity --

Q. Well, tell me some particular commodity you have in mind?

A. Well, sand, stone, that has been referred to, coal, grain; they are moved by truck. As a matter of fact, there is coal moved from Pennsylvania into Ontario - true it is not by hire carriers - moved from the Pennsylvania coal fields into Ontario by truck.

Q. Whose trucks are they?

A. The man in question happens to be a coal dealer as well as a trucker.

Q. And he trucks for himself only, does he

A. Yes, sir. His name is Howard Crane of Waterford, Ontario.

MR. EVANS: As a matter of fact -- sorry, sir.

THE CHAIRMAN: Go on.

MR. EVANS: Q. As a matter of fact, that business at one time developed into quite a business, didn't it?

A. Yes, sir.

Q. And was there not some suggestion about the illegality of the acquisition of the coal? And the way these people made money was simply to go in, load their truck with coal and spread it around the market at lower prices?

A. I was not familiar with that, sir.

Q. Yes. The fact was the truck owner was the fellow who was selling the coal which he acquired by rather devious and perhaps improper methods in some cases. Wasn't there quite a scandal about that at one time?

A. I have not heard of it. I knew this man had a coal dealer's license, and if he was in trouble I didn't know anything about it.

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CROSS-EXAMINED BY MR. FRAWLEY

Q. Mr. Goodman, did that Pennsylvania man have to get a certificate of convenience and necessity to travel the highways of Ontario, with that coal from Pennsylvania?

A. No, sir.

Q. Why?

A. It was his own coal.

(PAGE 10500 FOLLOWS)

Q. Why?

A. It was his own coal.

MR. EVANS: That is it.

MR. FRAWLEY: That exempts him from that provision in Ontario?

A. Yes.

MR. O'DONNELL: He was in the business of dealing with coal and in connection with that he used trucks?

A. Yes, sir.

Q. How far do you say sand and gravel is carried? How far would there be that type of movement, to what extent?

A. By and large except in areas which are not served by railway. The movement is fairly local - twenty, thirty and forty miles.

MR. HUME: Mr. Goodman, what about the carriage of petroleum products by truck? I understand you know of a situation which arose in the City of Hamilton where four and a half million gallons of petroleum products were moved from Pennsylvania into Hamilton to keep their gas system going during the time when there was an extreme railway car shortage?

A. There was also a serious shortage at that time, Mr. Hume, in steamship tankers and in order to keep the steel industries going in Hamilton there was four and a half million gallons moved by an American trucker from Pennsylvania to Hamilton, Ontario.

Q. What was the mileage of that movement?

A. I think that was about 220 miles.

MR. SINCLAIR: What was the rate?

A. I don't know. It was an I.C.C.-approved rate.

MR. O'DONNELL: What year was that?

MR. HUME: 1947.

A. The Government-owned coke plant in Hamilton closed on March 31st, 1947. That plant formerly supplied the Hamilton

area with gas. The shutting off of the natural gas that had formerly been piped into the area brought about the shortage situation. The movement was from Titusville, Pa., to the Hamilton By-Products Company.

MR. HUME: Well, if there is nothing else, Mr. Chairman, the last witness, who wishes to address some remarks in French, is Mr. Camille Archambault and Mr. Desmarais will look after the witness.

(10502 follows)

Evidence of Mr. Camille Archambault will appear in subsequent volume.

MR. HUME: Mr. Chairman, that completes the submission of the Canadian Automotive Transport Association. I merely wish at this time to express the appreciation of the Association for the privilege of appearing here. The matters upon which we have been asked to get information and data will be got as soon as possible, and if there is any further information that we can get that the Commission desires, that information will be procured if it is asked for.

MR. COVERT: Mr. Chairman, the next submission is that of the Province of Alberta.

MR. FRAWLEY: Mr. Chairman and members of the Commission, in beginning the presentation of the case for the Province of Alberta, I would like to call attention to the fact that Alberta's submission consists of nine separate presentations or briefs, the first two of which were presented at the hearings at Edmonton.

The first submission, as the Commission may recall, was a submission by Premier Manning, a general statement of Alberta's transportation problem, and that will be found in Volume 11 at pages 1916 to 1931.

The second submission was presented by Professor Stewart of the University of Alberta and was called "Transportation and Resources - Use in Alberta" and that submission is to be found in the record at pages 1933 to 2032 inclusive, and those pages include Mr. Evans' cross-examination of Professor Stewart.

As a matter of convenience only, and if the Commission might wish to have all of the submissions of Alberta together, I have had these two submissions made at Edmonton, bound, and have given copies to the Assistant Secretary.

The third submission, which will be the first submission to be presented here at Ottawa, is called Industrial Location and the Present Rate Structure".

THE CHAIRMAN: That is the title on the volume?

MR. FRAWLEY: Yes. I will run through these and indicate in each case who will be presenting them. As I say, the first submission will be "Industrial Location and the Present Rate Structure" and that will be presented by Professor Andrew Stewart and Mr. Hu Harries. The next brief to be presented will be called "Rate-making Principles and the Rate Structure". That will be presented by Mr. H. J. Darling. The next brief to be presented will be "The Long and Short Haul Rule". That will be presented by Professor D. P. Locklin of the University of Illinois and Mr. Harries. In connection with that brief Mr. H. G. Nolan of Calgary will be associated with me. The next brief will be "Interline Rates, The Freight Classification, The Carload Mixing Rule . That brief will be presented by Mr. H. J. Darling. Following that, the brief called "Highway Transport in Alberta" will be presented by Mr. Harries. Following that, the brief called "Regulatory Legislation" will be presented by Mr. Darling. Following that, a short brief called Canadian National Capital Structure, Accounting Methods and Statistical Procedure, Canadian National Co-operation". That brief will be presented by Mr. K. J. Morrison of Calgary.

Then, Mr. Chairman, the first brief to be heard this morning is the brief "Industrial Location and the Present Rate Structure". That brief and parts of other briefs will be presented by Professor Stewart, and the second part of it, Part II, by Mr. Harries.

A

I will call Professor Stewart.

I would suggest that the cross-examination be reserved until both witnesses have presented the complete brief.

(PAGE 10536 FOLLOWS)

MR. EVANS: In order to get this sort of cleared up in my mind, I assume, Mr. Frawley, that each of the several witnesses will be prepared to answer questions on all the briefs in so far as it may be convenient at the time to ask them. Is that so, or are you going to raise any question of division?

MR. FRAWLEY: No, I certainly won't raise any question. I think it will adjust itself as we go along. There has been -- certainly the briefs are divided now, and for that reason it is expected that the cross-examination will be directed to the brief which is presented by the witness. And I am sure my friend Mr. Evans does not mean anything different from that. There are only two briefs that are being jointly presented, so the question my friend raises only arises in connection with the Industrial Location brief and the Long and Short Haul brief. So I do not think there would be any difficulty at all.

PROFESSOR ANDREW STEWART CALLED

The following is/a brief entitled Industrial Location in Alberta and Present Rate Structure'.

(PAGE 10540 FOLLOWS)

INDUSTRIAL LOCATION IN ALBERTA AND THE PRESENT RATE STRUCTURE.

Errata

p. 6, line 12	-	delete "of the decisions".
p. 10, line 19	-	"Sec rities" should read "Securities".
p. 13, line 11	-	"Labout Gazette" should read "Labour Gazette".
p. 16, line 28	-	"industrial capocity" should read "industrial capacity".
p. 17, line 7	-	"rces of" should read "sources of".
p. 17, line 21	-	"industries output" should read "industrial output".
p. 19, line 4	-	"natural" should read "national".
p. 28, line 15	-	"$1000 \times \frac{95}{100} \times 1.37^{(5)} = \$13.02$" should read "$1000 \times \frac{95}{100} \times 1.39^{(5)} = \$13.21$"
p. 28, line 17	-	"Montreal processing $13.02 should read "Montreal processing $13.21".
p. 31, line 8	-	Tempest to Raymond mileage should read <u>41</u> not 31.
p. 35, line 1	-	"transportatkon bill" should read "transportation bill".
p. 36, line 3	-	"lindbergh" should read "Lindbergh".
p. 36, line 10	-	"in in" should read "is in".
p. 37, line 29	-	"influence" should read "influences".
p. 40, line 20	-	"compelementary" should read "complementary".
p. 40, line 28	-	"Commissions" should read "Commissioners".
p. 41, line 7	-	"Frotenac" should read "Frontenac".
p. 42, line 33	-	"out" should read "our".
p. 42, line 42	-	"probably" should read "probable".
p. 42, line 43	-	"more" should read "as".
p. 42, line 45	-	"by a low rate" should be deleted.
p. 44, line 21	-	after Manitoba, should be inserted - "and similarly the fresh meat and packing house product rates are a lower percentage of the class rates from Alberta and Saskatchewan than from Manitoba",
p. 45, line 11	-	after Commissioner, should read - "McKeown said:"
p. 48, Table 6	-	"To Vancouver From: Moose Jaw 75¢ and 212%" should read "To Vancouver From: Moose Jaw 74¢ and 215%."
p. 48, Table 6	-	add to footnote (1) "C.P.W. 52B".
p. 52, line 33	-	after C.N.R. should be inserted "(1930)".
p. 54, line 8	-	"recommen" should read "recommend-".
p. 64, line 3	-	delete "approve" and insert "make out a case of unjust discrimination the proposed Agreed Charge should be approved",

INDUSTRIAL LOCATION IN ALBERTA AND THE PRESENT RATE STRUCTURE

Page No.

PART I - FACTORS AFFECTING THE LOCATION OF INDUSTRIAL PLANT

PART II - FREIGHT RATES AND INDUSTRIAL LOCATION

PART III - CARRIER REGULATION AND INDUSTRIAL LOCATION

PART IV - SUMMARY AND RECOMMENDATIONS

APPENDICES

INTRODUCTORY

This submission rests upon and extends the arguments in briefs already presented to the Commission on behalf of the Province of Alberta.

In earlier submissions it was argued _inter alia_:

1. That the long-run solution of the problems of the Canadian railroads, consistent with the interests of the country as a whole, lies in an increased volume of revenue-producing traffic rather than in high or higher rates:
2. That an increased volume of business to the carriers could be created by national policies designed to promote the development of the resources of the nation:
3. That historic national policies have contributed toward creating in the prairie region an economy lacking an integrated, balanced economic structure; and that, under national regulation, there has been established and maintained a structure of rates which has impeded the development of resources within the prairie region:
4. That the natural resources of the Province of Alberta are capable of substantial development; that the development of these resources is consistent with the welfare of the country and of the carriers; and that maximum advantage would result from the removal of institutional impediments to the processing of Alberta's raw materials in locations close to their source.

While, as we have previously pointed out, other elements of national policy, for example, customs duties, affects transfer costs generally, the present submission deals particularly with the relation between transportation rates and the location of secondary industry.

The body of the brief is divided into four parts.

In the first part, we deal generally with the factors affecting the location of industrial plant, and endeavor to establish the importance of transfer costs.

In Part II, by reference to particular products, we illustrate certain features of the process of rate determination and of the existing freight rate structure which clearly, although not consistently, affect the profitability of manufacturing activity in Alberta.

In Part III, we discuss the principles and practice of rate regulation with reference to industrial location.

Part IV contains our conclusions and recommendations.

PART I

FACTORS AFFECTING THE LOCATION OF INDUSTRIAL PLANT

The present pattern of industrial location in Canada is the result of historical factors. The concentration of secondary industry in the central provinces is well-known and needs no elaboration here.

Our concern is with the location of new industrial capacity; and with the factors which affect the choice of location today.

A. The Trend Toward Greater Industrial Concentration in the Central Provinces.

(1) War-time Industrial Expansion.

During World War II expansion of industrial plant and employment occurred mainly within the already relatively highly industrialized provinces. At the same time, the prairie provinces experienced a decline in population attributable to the attraction of War industries.

> "The War speeded up the existing trends toward increased urbanization and the shift toward the industrialized sections of the country due to greater job opportunities there as compared to the Agricultural regions.... The wartime shifts in population will not be reversed to any appreciable extent and only then over a period of years...much of this growth of population is a continuation of a steady pre-war trend.... The industrialized centre of the country will likely continue to attract and absorb population from the distant regions." [1]

(1) Location and Effects of Wartime Industrial Expansion in Canada 1939-1944. Department of Reconstruction, Ottawa. P. 39.

The net population shifts between Provinces, June 2, 1941 to April 1, 1944 have been estimated as follows: (1)

Province	Estimated Net Civilian In-Migration
Prince Edward Island	- 7,000
Nova Scotia	+ 8,000
New Brunswick	-19,000
Quebec	-11,000
Ontario	+58,000
Manitoba	-25,000
Saskatchewan	-86,000
Alberta	-15,000
British Columbia	+90,000

(1) Department of Reconstruction, op. cit., p. 35.

The increase in industrial employment in certain cities, September 30, 1939 to July 1, 1944, was as follows: (2)

City	Increase in Industrial Employment Number	Percent
Halifax	16,384	204.7
Montreal	122,967	72.5
Toronto	108,251	74.1
Windsor	21,504	125.7
Kingston	6,041	326.7
Winnipeg	15,789	33.8
Regina	3,190	47.6
Saskatoon	2,109	60.0
Calgary	4,030	32.4
Edmonton	4,390	36.0
Vancouver	49,733	126.9
Victoria	9,761	273.3

(2) Department of Reconstruction, op. cit., p. 35.

The Department of Reconstruction report states:

> "This great increase in war time employment in the leading centres was largely due to the existence of plant and equipment facilities which could readily be adapted to Wartime production as well as to the concentration of more or less skilled labour in these localities." (3)

(3) Department of Reconstruction, op. cit., p. 44.

10544

(2) Post-war Industrial Expansion.

Since the War, similar industrial trends are apparent. The rate of industrial expansion has been, and remains, relatively rapid in the central provinces.

The following data on investment in Canada are taken from a recently published report by the Economics Research Branch, Department of Trade and Commerce, under the Section Heading: "Investment by Regions".

Year	Maritimes	Quebec	Ontario	Prairies	B. C.	Canada (1)	Montreal (1)	Toronto (2)
				($ Millions)				
1945	12	78	116	24	22	252	21.2	21.6
1946	21	130	214	38	54	457	44.0	54.6
1947	39	236	367	57	86	785	83.5	58.2
1948	58	322	482	75	103	1,040	82.1	75.8

(1) Investment and Inflation: With special reference to the Immediate Post-War Period, Canada, 1945-1948. Department of Trade and Commerce. Data for regions refer to "Investment in Durable Physical Assets covering only manufacturing, mining, woods operations, and selected utilities." p. 37.

(2) Data for cities refer to "Investment in Durable Physical Assets covering only manufacturing." p. 39.

On the basis of the data, the report points out:

> "(Ontario) alone is responsible for close to half of the investment in Canada.... British Columbia and the Maritimes have increased capital expenditures most rapidly since 1945. The indication is that these Provinces are currently spending almost five times as much as they spent three years ago. Ontario and Quebec are each spending about four times as much, and the Prairie Provinces about three times."

It is significant that investment in manufacturing assets alone in each of the cities of Montreal and Toronto (1948) exceeded the investment in manufacturing, mining, woods operations and selected utilities in the Prairie Region.

We do not wish to extend our argument into the philosophical and social objections to excessive concentration and urbanization of populations; and the strategic significance of decentralization of industry will be apparent to the Commission without any elaboration on our part.

The information provided shows that there is a strong tendency to increasing industrial concentration in the already heavily industrialized portions of the country. The condition of relatively slow industrial expansion in the prairie region does little to correct the fundamental weakness of the economy, or of the units of government, in this region.

B. Factors Affecting The Location of New Industrial Capacity.

Investment in new industrial capacity in a particular situation is not the result of the decisions of the intervention of a 'hidden hand' or of the operation of inevitable 'natural laws'. Investment is the result of the decisions of industrialists. A charitable view of the behaviour of industrialists suggests that they are influenced by relative costs.

The factors entering into costs include the following:

(a) Investment costs; (i) the rate of interest on borrowed funds; and (ii) plant construction costs;

(b) Plant operating costs; (i) salaries and wages ; (ii) taxes; (iii) fuel and power; and (iv) raw materials;

(c) Selling costs; including transportation costs.

These elements of cost fall into two broad categories, namely, processing or in-plant costs and transfer costs. Transfer costs include procurement costs (the cost of purchasing and bringing the necessary materials and supplies to the site of processing) and distribution costs (the cost of selling and delivering the products). Processing costs of the individual firm are determined by local factor prices, the appropriate

combination of the factors, and the scale of operations. Given local supply prices of the factors and the scale of operations, total costs are determined by the technical conditions affecting the combination of factors. The scale of operations is largely determined by the extent of the market, and is therefore intimately affected by transfer conditions.

(1) Technical Conditions: Combination of Factors.

The importance of particular factor prices to costs differs appreciably between industries, depending upon the technical conditions and the proportions in which the factors may be combined. Where local differences in factor prices occur the appropriate combination of factors is an important determinant of location. If there are no significant differences in factor prices the combination of factors is not important to location.

(2) Factor Prices and Processing Costs.

Under conditions of competition, regional differences in factor prices, at any time, reflect differences in the local scarcity or plentifulness of the factors relative to the demand for them. Material prices then tend to be low in areas of relative abundance of natural resources; interest rates to be low in areas in which substantial quantities of funds are seeking investment; and wages (money) to be low in areas of plentiful labour supply. Under conditions of competition therefore, investment costs and wages would tend to be high in the prairie region during the initial stage of development, while raw material prices would tend to be low. These price relations would affect the rate and character of industrial development.

At an earlier stage in the development of the country it might have been possible to provide empirical evidence supporting the above

generalizations. Today, the conditions in the factor markets are not those of competition limited only by immobility; and the degree of competition has been diminishing. Factor prices are subject to an increasing measure of institutional control; and regional differences are tending to disappear. Differences in processing costs are not as pronounced as would be expected from the assumption of competition; and the regional differences in costs have been decreasing.

Fully adequate evidence in support of these statements would require a much more elaborate study than we have been able to make. However, the following fragmentary evidence, selected we believe without any deliberate bias, is offered for the consideration of the Commission.

(a) Interest Rates:

(i) Influenced by the 'cheap money' policy of the Bank of Canada, there has been a distinct trend, over the past two decades, to lower interest rates generally.

The average yield of long-term Dominion of Canada bonds was 4.93 in 1929 and 2.57 in 1947. At the beginning of 1948 the Bank announced its intention to discontinue quoting on bonds at the beginning of the day. After an initial strengthening of bond yields the Bank continued its support of the market, and since March, 1948, yields have levelled off at under 3%.

The effect of the general reduction in interest rates is to reduce the significance of any differences in rates as a factor determining the location of industry.

(ii) Since 1945, Province of Alberta bonds have been issued at 3% and 2 3/4%; Province of Saskatchewan bonds at 3%, 3 1/2% and 4%; Province of Manitoba bonds at 2 1/4% and 2 3/4% (all 10 years). Similar securities of the Province of Ontario have been issued at 2 1/2% and 2 3/4%.

(iii) Mr. Jules Fortin, Secretary-Treasurer, Dominion Mortgage and Investments Association, states in a letter:

> "While mortgage interest rates generally continue to vary depending upon the type of lender and the locality where the property is situated, the tendency is for greater uniformity across Canada, particularly in the case of institutional lenders, and this tendency becomes more pronounced as more and more loans are made under the uniform basis of the National Housing Act."

The rate charged by the Central Mortgage and Housing Corporation, for house construction only, is uniform across Canada at 4 1/2%.

The Dominion Farm Loan Board likewise charges a uniform rate in all provinces. Rates are for First Mortgage, 5%; for second Mortgage, 6%.

The following data were obtained through the courtesy of the Secretary-Treasurer, Dominion Mortgage and Investments Association.

Mortgage Rates

The experience of one company which operates throughout the whole of Canada.

The Weighted Average Rate of Interest on New Business and Renewals During the Years.

	1919 %	1924 %	1929 %	1934 %	1939 %
Alberta	7.98	8.26	7.85	7.02	5.70
Oxford County, Ontario	6.80	7.04	6.82	6.00	5.68
Difference	1.18	1.22	1.03	1.02	0.02
Alberta	7.98	8.26	7.85	7.02	5.70
Brant County, Ontario	----	----	7.00	6.61	5.63
Difference	----	----	0.85	0.41	0.07
Alberta (1)	7.98	8.26	7.85	7.02	5.70
Ontario (1)	7.09	7.31	7.00	6.59	5.57
Difference	0.89	0.95	0.85	0.43	0.13

(1) Includes City of Montreal, P.Q.

(iv) Rates of Interest on Utility and Corporation Bonds

(Selected at random from quotations, Investment Securities Review, James Richardson and Sons, July, 1949).

Rate of Interest on Bonds of Canadian Utility Companies, Quoted June 30, 1949. (1)

Bell Telephone Co. of Canada	3	and 3 1/4
B. C. Electric Co. Ltd.	3 1/4	3 3/4
Calgary Power Ltd.	3 1/4	
East Kootenay Power Co. Ltd.	3 3/4	
Gatineau Power Co.	3	3 1/4
MacLaren Quebec Power Co.	3	
Montreal Tramways	5	
Ottawa Light, Heat and Power	4	
Power Corporation of Canada, Ltd.	3 1/2	
Quebec Power Co.	3	
St. Maurice Power Corp.	3 1/4	
Shawinigan Water and Power	3	and 3 1/2
Winnipeg Electric Co.	3 3/4	

(1) "Investment Sec rities Review" - James Richardson and Sons, July, 1949.

Rates of Interest on Corporation Bonds in Canada, Quoted June 30, 1949. (2)

B. C. Forest Products Ltd.	4	
Brown Co.	5	
Burns & Co.	4	
Canadian Celanese Ltd.	3	
Canadian Oil Co's. Ltd.	3 1/4	
Canadian Western Lumber Co. Ltd.	4	
Consolidated Paper Corp. Ltd.	3 1/2	
E. B. Eddy Co.	3 1/2	and 4
Federal Grain Co.	4	
Maple Leaf Milling Co.	3 3/4	
Massey-Harris Co. Ltd.	3	and 4 3/4
McColl Frontenac Oil Co. Ltd.	3	
Simpsons Ltd.	3 1/2	
United Grain Growers Ltd.	4	
Western Grain Co. Ltd.	5	

(2) James Richardson and Sons, op. cit.

10550

(b) Wages:

As far as we know no careful study has been made of regional differences in Money Wages in Canada.

Examination of wage statistics from various sources suggests that earlier differences, with higher rates in the prairie region, have been substantially eliminated.

(i) Data from "Wages and Hours of Labour in Canada," Department of Labour, Ottawa.

Wage Rates, Toronto - Edmonton Comparison.

	Average Wage Rate Per Hour					
	1929[1]		1946[2]		1947[3]	
	Toronto:	Edmonton	Toronto:	Edmonton	Toronto:	Edmonton
Newspaper Printing: Compositors, Machine & Hand	1.00	1.05	1.40	1.07	1.60	1.15
Unskilled Factory Labour	----	----	.67	.65	.65	.77
Electric Street Railways: Linemen	.72-.78	.85	.93	1.145	1.225	1.185
Conductors (one man car)	.65	.71	.80	.88	1.07	1.06
Trade, Wholesale: General Office Clerks, male	----	----	.80	.73	.91	.75
Trade, Retail: Sales Clerks, male	----	----	.75	.77	.76	.78
Service, Civic Employees: Labourers	.60	.55-.57	.71-.76	.65-.76	.80-.86	.79-.85
Service: Automobile Mechanics	----	----	.86	.91	.92	.95

(1) "Wages and Hours of Labour in Canada", 1941.

(2) "Wages and Hours of Labour in Canada", 1947.

(3) "Wages and Hours of Labour in Canada", 1948.

(ii) Data from "Man Hours and Hourly Earnings", Dominion Bureau of Statistics, Ottawa, March, 1949.

Average Hourly Earnings of Wage Earners.

	March 1, 1948		March 1, 1949	
	Alberta:	Ontario	Alberta:	Ontario
	$	$	$	$
Manufacturing	87.1	92.6	99.8	102.5
Meat Products	96.4	94.7	108.1	105.2
Plant Products	78.6	72.6	88.4	79.4
Railway Rolling Stock	91.4	98.7	108.4	113.8
Construction-Building	101.9	100.0	119.9	109.0
Services	57.9	56.9	66.6	63.6

(iii) Data from "Weekly Earnings and Hours of Work in Manufacturing Industries, 1945", Dominion Bureau of Statistics, Ottawa, 1948.

Weekly Earnings in Manufacturing Industries (1)

	1939		1944		1945	
	Ontario:	Alberta	Ontario:	Alberta	Ontario:	Alberta
Slaughtering & Meat Packing	24.37	24.28	33.92	33.21	35.47	29.05
Flour & Feed Mills	19.68	20.65	27.65	29.43	27.56	29.15
Petroleum Products	28.97	28.46	37.56	36.38	37.13	37.73
Breweries	25.32	34.64	36.72	34.58	36.38	33.77
Bread & Other Bakery Products	20.21	2.986	28.55	31.68	30.41	31.98
Railway, Rolling Stock	25.70	27.37	40.11	36.18	40.98	36.63
Printing & Publishing	29.14	29.36	37.08	36.43	38.61	37.52
Miscellaneous Foods	20.15	17.67	26.37	24.12	27.42	26.79
Clothing, Men's Factory	23.75	21.22	37.33	29.24	39.92	28.95
Castings, Iron	22.97	16.64	37.45	33.19	37.52	33.48

(1) D.B.S. publication 14-1180 - "Weekly Earnings and Hours of Work in Manufacturing Industries, 1945"; 1948. Average weekly earnings of male and female wage-earners in the leading industries of Ontario and Alberta. Chosen from first 15 for Alberta; first 40 for Ontario.

(iv) Data from "Labout Gazette", Department of Labour, Ottawa, May, 1949.

Wages and Hours of Labour in Canada in Manufacturing (2)

		Average Weekly Salaries and Wages at Jan. 1, 1949		Average Weekly Hours Worked Jan. 1, 1949		Average Hourly Earnings Jan. 1, 1949
		$		Hours		Cents
British Columbia		42.77		35.1		117.6
Alberta		43.51		40.1		99.3
Saskatchewan		40.59		40.9		98.4
Manitoba		41.33		40.3		94.5
Ontario		42.54		40.3		101.8
Quebec		39.36		42.3		88.3
Maritime Provinces		35.78		----		-----
Prince Ed. Is.	33.05		----		----	
Nova Scotia	34.65		41		86.6	
New Brunswick	37.89		41.7		89.3	
Canada		41.10		----		----
Edmonton		37.89		----		----
Calgary		40.11		----		----
Hamilton		44.35		40.8		108.5
Toronto		41.80		39.1		100.1

(2) Labour Gazette, May, 1949.

The apparent elimination of significant regional wage differentials may be attributed to two factors. During the War wage ceilings applied except in the case of relatively low rates. The raising of the latter reduced wage differences generally. The second factor, and undoubtedly the main one, is the increased organization of workers, the growth of national industrial labour organizations, and the application of the principle of 'equal pay for equal work' in the establishment of wages through collective bargaining.

(c) Local Taxes:

As far as we know no study has been made of differences in local taxes by provinces or regions. The problem is rendered difficult by differences in the bases of assessment and in the application of the property, business and other local taxes. It is likely that the availability of suitable sites and the market price of sites is a more important factor than rates. However, no evidence is available on these matters. It is reasonable to suppose that, on a regional basis, local taxes are not significant in the determination of industrial location.

(d) Fuel and Power:

For some industries fuel and power costs are sufficiently large to exert an appreciable influence on total costs. For processes adapted to the use of gas and coal, Alberta offers relatively cheap fuel.

The following data suggest that the relative cost of electrical energy is not a factor contributing to industrial expansion in Ontario.

Power Costs (1)

Toronto - Edmonton
Comparison
1949

	Toronto Net (3)	Edmonton (2) Monthly Charge
I Available to Customer Using: 2300 volt - 3 phase. installed capacity 60K.W. (70 KVA)		
Amount Used:		
(a) 20,000 KW LRS per month (about 46.5% of installed capacity)	$ 321.48	$ 228.00 (71%)(4)
(b) 43,200 KW LRS per month (100% of installed capacity)	638.86	413.82 (65%)
II Available to Customer Using: 13,200 volt - 3 phase. installed capacity 250K.W. (312½ KVA)		
Amount Used:		
(a) 90,000 KW LRS per month (50% of installed capacity)	1,354.02	884.39 (65.5%)
(b) 180,000 KW LRS per month (100% of installed capacity)	2,523.67	1,563.39 (62%)

(1) Board of Utility Commissioners of Alberta, Schedules of Power Rates in Canada.

(2) In Edmonton, Customers must supply their own transformer and switching equipment.
NOTE: Examples chosen favored Toronto in that they were selected from just within voltage discount ranges.

(3) After Deducting Voltage Discount and Prompt Payment Discount for Toronto and Prompt Payment Discount for Edmonton. Edmonton has no Voltage Discount.

(4) Figures in brackets indicate % Edmonton bill is of Toronto bill.

General knowledge of the changes which have been occurring in the structure of the factor markets, and such evidence as is available, point to the conclusion that regional differences unfavourable to the establishment of industry in Alberta have been reduced to the extent that this element cannot longer be considered an important factor in the determination of industrial location. How then are we to explain the continued preference for investment in the central provinces, and the current rapid rate of expansion of industrial plant in these provinces? We suggest that the reason lies in the organization and structure of industry, in economies of scale and in transfer costs.

(3) Industrial Organization

New industrial plant is created either by established firms through expansion of existing facilities in the situation in which these already occur or as branches in new localities; or by new firms in the locality in which the industry is already established or in new locations. Other things being equal, the advantage tends to lie with the established firms and with the location in which the industry has developed.

In the case of the established firm, promotion and developmental costs have already been incurred and are no longer significant in the pricing of the product. Industrial 'know how' has been acquired through experience, and losses have been written off. In many cases strong buyers' preferences have been created by successful labelling and advertising. Trade agreements and affiliations operate to limit the entrance of new firms into the industry. Established firms may be willing and able to destroy incipient competition or to absorb potential competitors. The extent of imperfect competition is increasing.

As between localities, there is substantial local inertia. Local conditions are familiar conditions. Comparison with other situations involves costs; and overhead costs may be increased with dispersion of plants. The location of affiliated industries and services contribute to the agglomerating tendency.

While some of these considerations are relevant to sound economy in the use of resources, others are not. We suggest that imperfect knowledge, and increasing institutional restrictions on competition are significant factors contributing to the tendency to geographic concentration.

(4) Economies of Scale

Given the technical conditions of production and factor prices, increased size of firm or plant, with increased scale of operations may result in significant reduction in unit costs; the added cost of additional output is less than the average cost of the smaller production. The limiting factors to economy of size are the increasing laid-down costs of materials (increased procurement costs), and increasing cost of carrying the product to market (increased distribution costs). While technical conditions may predispose to economies of scale, the ability to realize on such economies depends on transfer costs.

(5) Transfer Costs

The aspects of transfer costs which are relevant to the choice of location include:

(a) The geographic distribution of consumers.

(b) The geographic distribution of sources of material.

(c) The relation between rates and distance.

(d) The input-output processing relations.

(e) The relative rates for procurement and distribution.

(a) Assume two regions A and B separated by some distance, and that processing costs as affected by interest rates and wages are not significantly different in the two regions. A is relatively densely populated; B is relatively sparsely populated.

(i) If other transfer factors are neutral, and the supply of the raw material is the same in both regions, indistrial capacity will be greater in A. The price of the raw material at the source, and property values (rents) in the source of raw materials will be higher in A than in B. The difference in the raw material price, and in rents, is limited by the cost of moving the material, or the product, from B to A. There is however

no reason why either the raw material or the finished product should move from B to A, or in the opposite direction.

(ii) The situation would be the same as under (a) (i) even if, quantitatively, the sources of raw material were greater in B than in A. All sources of raw material in B would not necessarily be used.

(iii) The situation would be the same as in (a)(i) even if the rces of raw material in B were more productive (although relative rents in A and B would be more nearly equal), unless the differences in productivity were such as to offset the costs of moving the raw material, or the finished product, between the two regions. In this event raw material would be produced only in B. The total costs of supplying A with the finished product would be the same whether processing took place in B or A (locational indifference).

(iv) It is evident that the level of rates (high or low, increasing or decreasing) will affect the quantities produced and property values in the source of materials. Under conditions such as (a)(iii), high rates on the movement of either the raw material or the finished product would reduce both the quantity produced, and rents, in B.

(v) If the industry is subject to decreasing cost, the large local market in A, with consequently low local distributing costs, will permit economies and increased industries output in A.

If additional costs per unit in A are lower than costs in B by more than the cost of moving the raw material from A to B, there will be a tendency for raw material produced in B to be processed for local consumption in A.

If, in the extreme case, the additional costs in A are lower than costs in B by more than the cost of moving the raw material from B to A and the processed product back from A to B, there will be a tendency for raw material produced in B to be processed in A and the finished product shipped to B for consumption there.

It is evident that the level of rates will affect the extent of the movement of raw material and finished product. High rates will impede movement, and under the conditions assumed would stimulate local, though small scale, production in B.

(b) Even if the raw material is localized, provided other factors are neutral, and processing costs are not significantly different, total costs would be equal at all points (locational indifference).

(c) Under similar conditions to (b) except that the unit-mile rate diminishes with distance (tapering), and the rate of tapering is the same for material and finished product, total costs would be minimized by locating either at the point of raw material production or the point of consumption, but would be higher at any intermediate point.

(d) Under the same conditions as (b), except that in processing two units of raw material produce one unit of product, (ratio 2:1) total costs would be minimized by locating at the point of raw material production. The larger the input-output ratio the greater the advantages of orientation toward the source of raw materials.

(e) Under similar conditions to (b) except that the rate on the finished product is greater than the rate on the raw material, total costs would be minimized by locating at the point of consumption. The greater the difference in rates the greater the advantage of consumer location.

Under otherwise similar conditions to (b), if the ratio of the rate on the finished product to the rate on the raw material (say 2:1) is the same as the input-output ratio (2:1) costs are equalized at all points (locational indifference). If the rate ratio (say 3:1) is greater than the input-output ratio (2:1) processing will tend to be located at the point of consumption; if less, the advantage is with raw material location.

The conditions illustrated bring out the importance, with substantially uniform factor prices, of economies of scale and of freight rates as determinants of industrial location.

The historical distribution of population, with the already greater density of population and the presence of relatively large scale, established industry in the central provinces, provides conditions favourable to the establishment of new industrial capacity in these provinces. Some of these conditions are relevant to sound economy in the use of the resources of the country, while some are not.

We have already expressed the view that the economy of the more sparsely populated prairie region has certain defects, and that these defects could be reduced by expansion of industry in the prairie provinces.

There is then a reasonable argument, on grounds of natural, as well as regional, welfare for measures to induce decentralization of industry. Our argument in this submission is confined to aspects of the freight rate structure.

In the illustrations we present in Part II there is, in our submission, substantial evidence that relative rates dispose against location of secondary industry in Alberta.

PART II

FREIGHT RATES AND INDUSTRIAL LOCATION

Part I of this Brief has dealt with the general problem of industrial location and has noted the role of transfer costs in this development. In this Part we will deal with specific rate situations which illustrate the role that transfer costs play in industrial location.

We may distinguish two broad divisions of the subject matter.

A. The relationship between the transportation rates on raw materials and the rates on products made from those raw materials.

B. The matter of transportation charges which apply on the same products from different production areas (market rates).

A. Raw Material and Finished Product Rates.

The relative transfer costs on raw materials and processed products will, in specific situations, tend to do one of the following:

a. encourage consumer location;

b. encourage producer location;

c. play a neutral role in location.

Examples of rate relations which do one or other of these things may be found by referring to certain industries presently established in the Province of Alberta.

(1) The Meat Packing Industry offers one of the best examples of an industry affected by freight rate relations which tend to produce consumer location, our first general classification.

Livestock production is part of the agricultural picture in every province of Canada.[(1)] Table 1A shows the number of cattle and calves, hogs, and sheep marketed annually in Canada while Table 1B shows percentage relation that these various marketings bear to one another.

(1) Newfoundland is omitted from this discussion because of the lack of data.

TABLE 1A

Provincial Marketings by Alternate Years 1930 to 1948 in Thousands (1)

(a) Cattle and Calves

YEAR	B.C.	ALTA.	SASK.	MAN.	ONT.	QUE.	MARI-TIMES	TOTAL
1930	-	153	134	95	506	136	5	1029
32	-	136	131	93	483	110	1.5	954.5
34	-	240	229	186	675	149	6	1485
36	-	473	402	211	716	146	16	1964
38	-	385	211	276	737	190	23	1822
40	38	362	296	275	747	268	43	2029
42	45	374	328	269	726	278	40	2060
44	56	472	461	256	695	259	29	2228
46	64	595	583	318	768	311	57	2696
48	67	651	573	306	874	380	48	2899

(b) Hogs

YEAR	B.C.	ALTA.	SASK.	MAN.	ONT.	QUE.	MARI-TIMES	TOTAL
1930	-	629	315	200	1054	83	21	2302
32	-	1008	491	281	1326	74	17	3197
34	-	1013	491	230	1179	85	29	3027
36	-	1039	570	268	1613	251	55	3796
38	-	783	217	250	1631	283	81	3245
40	-	1485	649	511	2191	524	88	5454
42	32	2182	965	598	2022	348	86	6233
44	50	2982	1934	852	2109	789	147	8863
46	22	1251	514	345	1770	478	85	4465
48	47	1165	357	272	1907	851	176	4775

(c) Sheep and Lambs

YEAR	B.C.	ALTA.	SASK.	MAN.	ONT.	QUE.	MARI-TIMES	TOTAL
1930	-	107	43	41	254	135	11	591
32	-	113	56	40	245	114	9	577
34	-	206	82	90	302	125	19	824
36	-	247	94	81	252	123	15	812
38	-	200	73	89	249	129	18	758
40	36	193	80	99	226	123	15	772
42	34	207	89	95	229	158	21	833
44	40	303	136	124	259	161	28	1051
46	35	300	142	122	286	214	66	1165
48	22	216	78	55	207	184	39	801

(1) Source: "Annual Market Review", D.B.S.

TABLE 1B

Marketings in Canada in Percentages by Provinces (1)

Alternate Years, 1930 - 1948

(a) Cattle and Calves

YEAR	B.C.	ALTA.	SASK.	MAN.	ONT.	QUE.	MARI-TIMES	TOTAL
1930	0	15	13	9	49	13.5	0.5	100.0
32	0	14	13.5	10	51	11.5	0	100.0
34	0	16	15.5	12.5	45.5	10	0.5	100.0
36	0	24	20.5	10.5	36.5	7.5	1.0	100.0
38	0	21	11.5	15	40.5	10.5	1.5	100.0
40	2.0	18	14.5	13.5	37	13	2.0	100.0
42	2.0	18	16	13	35.5	13.5	2.0	100.0
44	2.5	21	20.5	11.5	31	12	1.5	100.0
46	2.5	22	21.5	12	28.5	11.5	2.0	100.0
48	2.5	22.5	20	10.5	30.0	13	1.5	100.0

(b) Hogs

YEAR	B.C.	ALTA.	SASK.	MAN.	ONT.	QUE.	MARI-TIMES	TOTAL
1930	0	27	13.5	8.5	46.5	3.5	1.0	100.0
32	0	31.5	15.5	9.0	41.0	2.5	0.5	100.0
34	0	34	16	7.5	38.5	3.0	1.0	100.0
36	0	27.5	15	7	42.5	6.5	1.5	100.0
38	0	24.0	6.5	7.5	50.5	9.0	2.5	100.0
40	0	27.5	12	9.5	40	9.5	1.5	100.0
42	0.5	35	15.5	9.5	32.5	5.5	1.5	100.0
44	0.5	33.5	22	9.5	24	9.0	1.5	100.0
46	0.5	28.0	1.5	8.0	39.5	10.5	2.0	100.0
48	1.0	24.5	7.5	5.5	40	18	3.5	100.0

(c) Sheep and Lambs

YEAR	B.C.	ALTA.	SASK.	MAN.	ONT.	QUE.	MARI-TIMES	TOTAL
1930	0	18.0	7.5	7.0	42.5	23	2.0	100.0
32	0	19.5	9.5	7.0	42.5	20	1.5	100.0
34	0	25	10	11.0	36.5	15	2.5	100.0
36	0	30.5	11.5	10	31	15	2.0	100.0
38	0	26.5	9.0	12	33	17	2.5	100.0
40	4.5	25	10.5	13	29	16	2.0	100.0
42	4.0	25	10.5	11.5	27.5	19	2.5	100.0
44	4.0	29	13	12	24.5	15	2.5	100.0
46	3.0	26.0	12	10.5	24.5	18.5	5.5	100.0
48	3.0	27.0	9.5	6.5	26	23	5.0	100.0

(1) Source of basic information: "Annual Market Review," D.B.S.

Tables 2 and 2A give the slaughterings in each Province in Canada and the percentage that these slaughterings are of provincial marketings. You will note that Alberta has consistently slaughtered fewer animals than she has marketed.

In the past the vast bulk of Alberta's livestock has been sent to deficit meat areas in the unprocessed state; that is, we have exported live animals. Table 3 which gives the actual interprovincial shipments of cattle and calves, hogs, and sheep from Alberta illustrates this condition.[1]

The impact of transfer costs upon the meat and livestock movements statistically outlined in the above tables is apparent when the relative costs of movement are considered. The following are typical examples of the present freight costs that apply on the movement of Alberta cattle, and cattle products, to consuming centres. Steers are used in these examples but the same situation holds with hogs or sheep.

Example No. 1

A good butcher steer finished at Carstairs, Alberta, and moved to Vancouver for consumption.[2] The costs of Calgary and Vancouver slaughter, compared from the transportation standpoint are as follows:

(a) Calgary processing:

Live steer Carstairs to Calgary $1000^{(3)} \times \frac{98}{100}^{(4)} \times 14¢^{(5)} = \$1.37$

Meat Calgary to Vancouver $980 \times \frac{60}{100}^{(6)} \times 1.15^{(7)} = \$6.76$

(1) See Appendix A for comparable tables for other provinces.
(2) These examples are comparable to those used by Gainers Ltd., an Edmonton meat packing concern. See Exhibit #25 and pages 2114 to 2182 of the Transcript of Proceedings of this Commission.
(3) Initial weight of animal.
(4) Shrinkage of 2%.
(5) C.P.R. W 59-B.
(6) 60% dressing percentage includes other edible products and allowance for hide.
(7) W 490 C.

TABLE 2

Provincial Slaughterings in Inspected Establishments in Canada (1)

for Alternate Years 1930 to 1946.

(In Thousands)

YEAR	B.C.	ALTA.	SASK.	MAN.	ONT.	QUE.	MARI-TIMES	TOTAL
				Cattle and Calves				
1930	56	77	23	138	392	291	2	979
32	49	71	32	158	321	308	1	940
34	60	114	64	287	464	355	3	1347
36	70	168	100	401	459	318	6	1522
38	93	153	65	357	479	378	11	1536
40	81	159	69	340	505	424	17	1595
42	98	188	72	367	440	455	17	1637
44	121	258	122	509	508	478	20	2016
46	145	364	213	617	499	546	38	2422
				Hogs				
1930	130	326	88	266	720	373	25	1928
32	174	492	131	493	819	579	38	2726
34	124	580	238	534	909	450	40	2875
36	121	665	305	614	1271	541	49	3566
38	102	594	133	369	1368	520	63	3149
40	128	1186	344	992	1855	874	79	5458
42	123	1752	663	1199	1771	610	80	6198
44	211	2342	1182	1953	1855	1088	135	8766
46	153	932	377	621	1495	594	80	4252
				Sheep and Lambs				
1930	86	67	11	81	297	185	22	749
32	98	78	20	111	285	179	19	790
34	110	74	30	143	322	154	22	855
36	97	89	32	144	293	155	19	829
38	105	67	28	129	287	165	19	800
40	101	55	28	138	270	159	14	765
42	106	68	31	148	276	177	20	826
44	127	92	37	168	320	190	23	957
46	108	123	72	256	318	283	50	1210

Source: "Livestock and Animal Products Statistics" -- D.B.S.

(1) These figures are less than figures for Slaughterings in Packing Houses and Abattoirs but were used because figures for latter were not published on the same basis for all years.

TABLE 2A

Provincial Slaughterings as a Percentage of Provincial Marketings

Alternate Years 1930 1946

YEAR	B.C.	ALTA.	SASK.	MAN.	ONT.	QUE.	MARI-TIMES
			Cattle and Calves				
1930		48	17	146	78	214	40
32		52	24	170	67	281	67
34		48	29	155	69	238	50
36		36	25	190	64	217	38
38		40	31	168	65	199	48
40	213	44	23	124	68	158	40
42	218	50	22	136	61	163	43
44	219	55	26	199	73	184	69
46	226	61	36	201	65	175	67
			Hogs				
1930		52	28	133	68	450	119
32		49	27	175	62	782	224
34		57	48	232	77	530	138
36		64	54	229	79	225	89
38		76	61	148	84	182	78
40		79	53	194	85	166	89
42	385	80	69	200	88	175	93
44	422	79	61	229	88	138	92
46	700	74	73	180	84	124	95
			Sheep and Lambs				
1930		63	26	199	116	137	200
32		69	36	278	116	158	211
34		36	37	159	106	123	116
36		36	34	179	116	126	126
38		34	39	144	115	130	106
40	279	26	35	139	119	129	94
42	297	33	35	156	120	111	96
44	318	30	27	136	123	118	82
46	290	41	51	210	111	132	76

TABLE 3

Shipments of Livestock from Alberta to Outside Points (1)(2)

Alternate Years 1930 to 1946

(In Thousands)

YEAR	B.C.	SASK.	MAN.	ONT.	QUE.	MARI-TIMES	OTHER COUNTRIES	TOTAL
				Cattle and Calves				
1930	25	1	14	15	9	-	.5	64.5
32	24	2	15	7	15	-	-	63
34	42	8	19	15	33	.2	.01	117.21
36	58	8	57	39	32	1	3	198
38	44	9	34	25	18	.04	3	133.04
40	51	4	15	25	13	-	1	109
42	47	3	11	10	8	-	31	110
44	70	10	22	28	39	-	1	170
46	87	24	22	17	30	.2	.5	180.7
				Hogs				
1930	108	9	34	27	79	-	-	257
32	129	19	108	14	127	-	-	397
34	119	46	99	2	87	16	-	369
36	108	33	55	.2	8	.3	2	206.5
38	72	22	31	-	-	-	-	125.02
40	114	65	102	-	1	-	-	282
42	101	139	169	1	16	-	.02	426.02
44	169	117	286	52	20	-	-	644
46	153	59	97	7	10	-	.06	326.06
				Sheep and Lambs				
1930	55	2	13	14	3	-	.01	87.01
32	45	5	15	27	.5	-	.04	92.54
34	70	8	2	51	.5	-	.09	131.59
36	62	6	2	68	14	-	-	152
38	57	3	3	49	10	-	.07	122.07
40	61	6	2	60	5	-	.08	134.08
42	61	7	2	62	4	-	2	138
44	88	4	.7	91	9	-	25	217.7
46	76	20	2	76	20	-	1.5	195.5

(1) See remarks and table on next page.
(2) Source: Livestock and Annual Products Statistics -- D.B.S.

EXPLANATORY NOTE TO TABLE 3 ON PRECEDING PAGE

It will be noted from the following table that the most conservative figures for the export of livestock from Alberta have been chosen. We have used the figures published in "Livestock and Animal Products Statistics" which appear in the right hand column below.

CATTLE AND CALVES EXPORTED FROM ALBERTA

Year	(a) Tonnage 000's	(b) Animal Equiv. 000's	(c) Total Marketings Minus Alta.Slaughter	Export (d)	Export (e)
1936	124.4	276	-	-	199.4
38	75.4	156	229.2	192.8	134
40	76.3	169	195.4	177	108.7
42	-	-	174.6	180	109.7
44	81.9	182	210.6	179	170
46	79.5	177	221.4	-	179.8

(a) Summary of Monthly Railway Traffic Reports, D.B.S. Net export of cattle and calves per column 8 under Revenue Freight carried by Canadian Railways.

(b) Using a factor 20/9 which means the average weight of each animal was 900 lbs., we calculate the number of animals exported.

(c) Alberta Cattle and Calves Marketings per Annual Market Review -- Dominion Department of Agriculture, minus Slaughterings in Packing Houses and Abattoirs for Alberta per Livestock and Animal Products Statistics, D.B.S.

(d) Export figures given by Alberta Department of Agriculture, calculated from Health of Animals returns.

(e) Export figures from Livestock and Animal Products Statistics.

10567

(b) Vancouver processing:

Live steer Carstairs to Vancouver $1000 \times \frac{96}{100} \times 56¢^{(1)} = \$5.38$

Total cost: Calgary processing \$8.13; Vancouver processing \$5.38.

Example No. 2.

A good butcher steer finished at Carstairs, Alberta, and moved to Montreal for consumption. The cost of Calgary, Winnipeg and Montreal slaughter compared:

(a) Calgary processing:

Live steer Carstairs to Calgary $1000 \times \frac{98}{100} \times 14¢ = \$1.37$

Meat Calgary to Montreal $980 \times \frac{60}{100} \times \$2.27^{(2)} = \$13.35$

(b) Winnipeg processing:

Live steer Carstairs to Winnipeg $1000 \times \frac{96}{100} \times 64¢^{(3)} = \$\ 6.14$

Meat Winnipeg to Montreal $960 \times \frac{60}{100} \times \$1.46^{(4)} = \$\ 8.41$

(c) Montreal processing:

Live steer Carstairs to Montreal $1000 \times \frac{95}{100} \times \$1.37^{(5)} = \$13.02$

Total cost: Calgary processing \$14.72; Winnipeg processing \$14.56; Montreal processing \$13.02.

Example No. 3.

A good butcher steer finished at Grande Prairie, Alberta, and moved to Vancouver for consumption. The costs of Edmonton and Vancouver slaughter compared:

(a) Edmonton slaughter:

Live steer Grande Prairie to Edmonton $1000 \times \frac{97}{100} \times 44¢^{(6)} = \$4.27$

Meat Edmonton to Vancouver $970 \times \frac{60}{100} \times 1.15^{(7)} = \$6.69$

(b) Vancouver slaughter:

Live steer Grande Prairie to Vancouver $1000 \times \frac{96}{100} \times 79¢^{(8)} = \$7.58$

Total cost: Edmonton \$10.96; Vancouver slaughter \$7.58.

(1) C.P.R. W 52 B.
(2) CFA No. 103-P.
(3) C.P.R. W 9-B.
(4) CFA No. 103-P.
(5) CFA 116-A.
(6) C.P.R. W 9-B.
(7) C.P.R. W 490-C.
(8) C.P.R. W 52-B.

Example No. 4.[1]

A good butcher steer finished at Grande Prairie, Alberta, and moved to Montreal for consumption. The costs of Edmonton, Winnipeg and Montreal slaughter compared:

(a) Edmonton slaughter:

Live steer Grande Prairie to Edmonton $1000 \times \frac{97}{100} \times 44¢ = \$\,4.27$

Meat Edmonton to Montreal $970 \times \frac{60}{100} \times \$2.27$[2] $= \$13.21$

(b) Winnipeg slaughter:

Live steer Grande Prairie to Winnipeg $1000 \times \frac{96}{100} \times 80¢$[3] $= \$\,7.68$

Meat Winnipeg to Montreal $960 \times \frac{60}{100} \times \$1.46 = \$\,8.41$

(c) Montreal slaughter:

Live steer Grande Prairie to Montreal $1000 \times \frac{94}{100} \times \$1.58$[4] $= \$14.85$

Total cost: Edmonton processing \$17.48; Winnipeg processing \$16.09; Montreal processing \$14.85.

These four examples, which illustrate the general condition, indicate that it is cheaper to process Alberta livestock outside Alberta. This situation arises directly as a result of the relative levels of the freight rates charged on meat and livestock.

A situation comparable to the meat-livestock example we have just cited, exists in the petroleum industry. In general the freight rate on crude oil is forty per cent of the fifth class standard mileage rate while petroleum products take a rate which is on the full fifth class basis. The existence of this rate relation has had the effect of restricting the market for petroleum products produced in Alberta in favour of products processed elsewhere -- from Alberta crude oil. A company situated in Calgary, for instance, has not been able to

(1) In all these examples the added costs of feeding, car cleaning, and etc. incidental to live cattle shipments are ignored as are the costs of icing and servicing refrigerator cars.
(2) C.F.A. 103-P.
(3) C.P.R. W 9-B.
(4) C.F.A. 116-A.

service its dealer outlets in Saskatchewan from its Calgary refinery but has been forced to buy petroleum products for those stations from another refining company situated closer to the consuming point. This latter company was actually using Alberta crude oil from the same field as the Calgary refinery.

Industries such as leather goods and tanning, wool processing and soap manufacturing face a situation comparable to the packing house industry.

(2) The Sugar Manufacturing Industry of Southern Alberta illustrates the second general classification produced by raw material and finished product rate relations, namely, producer location.

Beet sugar, which constitutes the bulk of Western Canadian consumption, comes from one of the following points of manufacture: Picture Butte, Alberta; Raymond, Alberta; or Winnipeg, Manitoba. Each of these factories is located in the centre of a beet producing area. The relation which exists between the rates on sugar beets and the rates on the processed product is a prime determinant in the matter of the location of these plants.

The rates on sugar beets moving from the field to the plant correspond roughly to 50% of the tenth class distributing rate, although the actual rates are truck competitive and at the level shown in Table 4.

Table 4

Carload rates on Sugar Beets to Raymond and Picture Butte, Alberta
Carload Minimum 80,000 lbs. (C.T.C. No. W. 3997.)

From	To	Rate	Mileage
Diamond City	Picture Butte	2¼	7
Magrath	Raymond	3½	10
Whitney	Picture Butte	3¾	19
Tempest	Raymond	5½	31
Barnwell	Raymond	6½	53
Reliance	Raymond	7	60

The rates applicable on the finished product, sugar, are on the basis of fifth class or less, depending upon the carrier competition present. The by-products such as molasses and beet pulp move at fifth class and eighth class respectively.

The manner in which freight charges affect the location of the plants is apparent from the following table.

Table 5

Freight Costs on Beets and Beet Products per ton (1)

Total Field to Consuming Point MILES	Field to Factory MILES	Factory to Consuming Point MILES	Beet Cost	Sugar Cost	Mol. Cost	Pulp Cost	Total Cost
	25	175	$1.00	$1.41	$.23	$.15	$2.79
200	200	-	2.50	--	--	--	2.50
500	25	475	1.00	2.49	.41	.25	4.15
	500	-	4.20	--	--	--	4.20
1000	25	975	1.00	3.39	.66	.37	5.96
	1000	-	6.80	--	--	--	6.80
1500	25	1475	1.00	5.23	.85	.45	7.53
	1500	-	9.00	--	--	--	9.00

(1) Factory outrun per ton of beets: 300 lbs. sugar; 50 lbs. molasses; 50 lbs. dried beet pulp.

Note: All product rates are on a distributing basis.

Table 5 indicates that when there is a movement of 200 miles involved in marketing sugar, a plant situated 25 miles from the source of supply and 175 miles from the point of consumption has a total freight cost for all products of $2.79. A plant situated at the point of consumption would have a freight cost of $2.50. As the distance to market increases we find the initial disadvantage of producer location disappearing and its relative advantage showing a marked increase even when all products are considered. It should be noted that in fact the prime consideration is actually the sugar movement alone. The by-products, beet pulp and molasses tend to draw their own industry and consequently could well be omitted from the locational picture.

In the general category of industries affected by producer-location rates we may include such agricultural processing plants as those handling canned vegetables and evaporated milk, although both the latter are conditioned by the perishability of the initial raw material to a much greater extent than is sugar. In the general industrial field certain coal products, and to a limited extent, building brick manufacture, are other illustrations.

(3) <u>The Flour Milling Industry</u> is an example of our third general classification of raw material-finished product rates. It demonstrates a rate relation between a raw material and a processed product which has a neutral effect upon the location of processing plant.

The manner in which freight rates influence the location of the flour milling industry is apparent from the following examples.

10572

Example No. 1.

Grain originating at Red Deer and moving to Vancouver for consumption as flour.

Domestic grain rate Red Deer to Vancouver		39½¢
Stopover for milling in Calgary, charges as follows:		
Domestic rate Red Deer to Vancouver	39½¢	
Less inward rate paid Red Deer to Calgary	14½¢	
Balance of through rate on flour	25 ¢	
Plus stopover for milling	1¼¢	
Total charges		40¾¢

Example No. 2.

Grain originating at Red Deer and moving to Vancouver for export as flour.

Export grain rate Red Deer to Vancouver		22¢
Stopover for milling in Calgary, charges as follows:		
Export rate Red Deer to Vancouver	22¢	
Less inward rate paid Red Deer to Calgary	14½¢	
Balance of through rate on flour	7½¢	
Plus stopover for milling	1¼¢	
Total charges		23¼¢

Example No. 3.

Grain originating at Red Deer and moved to Montreal for export as flour or for domestic consumption.

The grain rate Red Deer to Ft. William	27¢
Plus the Fort William rate to Montreal	38¢
Total charges	65¢

The milling in transit privilege is exactly the same for milling at all intermediate points on a direct line of transit so in this case the grain which originates at Red Deer could be milled at any point between Red Deer and Montreal at the same transportation cost.

The practical effect of the milling-in-transit privilege has been to permit the establishment of, or continued operation of, mills situated in non-wheat producing areas. In the absence of such a privilege Alberta points and ports such as Vancouver and Montreal would have more milling industry.

Jackman in his Economic Principles of Transportation (1) obviously supports this idea when he states at page 595:

> "In the United States the gradual expansion of settlement westward and the relative decline of agriculture in the East caused the eastern flour mills to face a serious situation. Their local supplies of wheat were dwindling and they had to draw their wheat from wider and wider areas as the wheat producing territory pushed farther and farther westward. But as the production of wheat advanced westward, newer mills were established nearer the sources of supply; and these had an advantage over the older mills in the East in that they could get their wheat at the lower freight rates, while their flour, being more valuable than the wheat, could stand the longer-distance haul to the markets of the East. For a time it seemed as if the eastern mills would either have to go out of business or else move west near the sources of their raw material, for with their long haul on the wheat and the full local rate on the outward movement of flour they could not compete with their western competitors, which obtained their wheat at a very low cost of transportation and sometimes locally without any railway haul. To save the situation, so far as the eastern mills were concerned, the railways developed the system of milling-in-transit rates, under which the inbound movement of wheat and the outbound movement of flour were treated as practically a continuous movement from the point of origin of the grain to the ultimate destination of the flour. By this means it was immaterial where the mill was located along the railway line, for the through rate from the point of origin of the wheat to the destination of the flour would be the same. The through rate displaced the combination of the two locals, on the wheat inbound and the flour outbound.
>
> "This system extended to Canada and was equally advantageous because the production of wheat and the flour milling industry had gone through the same evolutionary stages in its westward expansion as in the United States."

B. Market Rates.

Aside from the rate relations which exist between raw materials and finished products, industrial location may be influenced by the relative rates between and within competing territories. Relatively high rates in one area, although they may act as a trade barrier protecting the local market, generally have the effect of increasing the

(1) W. T. Jackman, Economic Principles of Transportation, University of Toronto Press, 1935.

transportatkon bill for industry and commerce located in that area, and of limiting the market for locally produced commodities.

For the most part the locational aspect of market rates is a derived one, and stems from the general principles utilized in formulating the freight rate structure. If those principles involve discrimination between certain localities and areas these will be at a disadvantage as far as industrial location is concerned.

Long-and-short-haul Discrimination has very decided implications for industrial development. The position of the vegetable canning industry of Southern Alberta is one example we may cite. This industry is unable to get the benefit of its proximity to the west-coast market because vegetables grown and canned two thousand miles further east have been able to move into that market at a lower rate. The evidence of the Alberta Canning Company of Magrath in the Thirty Percent Case is interesting in this regard. Mr. Eddington, the President of that company, stated in his brief to the Board:(1)

> "We further object to the present rate of 96¢ per hundred pounds for Toronto shippers to ship canned goods into Vancouver, in comparison with our rate of $1.16.... It is our further claim that geographically Vancouver should be one of our markets, and should be considered the same as in the U.S. where our freight rates take care of us from Utah to our Pacific Coast..."

The vegetable canning industry in Southern Alberta is appreciably smaller than it might be because of long-and-short-haul discrimination.

The manner in which Interline Rates are constructed also has an effect upon industrial location. A new salt plant at Lindbergh, Alberta, a Canadian National point, is assessed a surcharge of 6¢ per hundred pounds on all traffic which moves to Canadian Pacific points. The effect of this addition to the through rate is to seriously qualify the competitive position of this plant *vis a vis* plants at Waterways, Alberta, Unity, Saskatchewan, Neepawa, Manitoba, and Windsor, Ontario, all of which receive the through single factor rate because

(1) See Transcript of Evidence, Thirty Percent Case, Volume 764, page 9596 and following.

of location on both lines or at least proximity to both lines. As a result of transportation costs which hamper the competitive position of the lindbergh plant a program of expansion which would be of material assistance to industrial diversification in Alberta is being hindered.

The existence of Distributing Rates from certain places and the lack of those rates from others also has an effect upon industrial location. The position of a plant at Gap, Alberta which manufactures mineral insulation is of interest in this regard. This plant in in competition with one at Moose Jaw and others in Eastern Canada in supplying insulation to the prairie market yet the Gap plant pays at least 15% more than its competitors on each pound of freight it ships. Thus if the Gap plant wishes to get into Medicine Hat, a point 238 miles east it pays a rate of 62¢. The Moose Jaw plant which is 258 miles east of Medicine Hat can get into that market on a 57¢ rate. The fact that the Gap plant is now under bondholder operation is not unrelated to this freight rate discrimination which worsens its competitive position.

The problem of market rates and industrial location may also be related to the use of Agreed Charges. These Agreed Charges are a development of the Transport Act of 1938 and subsequent ammendments. An Agreed Charge is a contract rate given by a railroad, or railroads, after an agreement which is subject to approval by the Board of Transport Commissioners has been made with a shipper who guarantees all, or a specified part, of his business to the railway granting him the rate. In return for a volume commitment the shipper is given a special rate for a stated or unlimited period of time. The agreement may be terminated by either party upon notice.

The purpose of Agreed Charges is to enable the railroads to more effectively meet the competition of water and truck carriers.(1)

The McColl Frontenac Case which we mention in Part III of this

(1) See Hansard 1938, pages 340 and following.

submission provides a good example of the implications of Agreed Charges for industrial location. In addition there are certain more general matters which must be considered.

The position of the small shipper is made difficult by Agreed Charges. The Transport Act provides that if it be proved that a contract unjustly discriminates against a competing shipper that shipper may ask for similar treatment. The complaining shipper must show that "substantially similar circumstances and conditions" prevail. This is a most difficult requirement and indeed having in mind that two plants in an industry seldom have similar conditions as to their marketing requirements it is very likely to be an impossible one. One example which illustrates this may be found in C.N.R. and C.P.R. v. Lion Oils Ltd. (1939) 50 C.R.C. 166 where counsel for Lion Oils stated:

> "that that company could not become a party to the agreed charge as it could not undertake to move all its traffic by rail, as the oil companies parties to the agreement had undertaken to do, because it has not tank stations established at the various points on the railways."

Having in mind the differences in market requirements it may also be shown that a small plant would be unable to take advantage of the Agreed Charge granted a large competitor. This would happen in any instance where the relative proportions of long-haul traffic and short-haul traffic differ significantly between the two plants.

A more fundamental disability pertaining to Agreed Charges is the fact that they interfere with legitimate competition from other carriers. In our submission the only effect of legislation of this kind, which hampers free competitive influence within the transportation field is to increase the overall cost of transport service to the users. As we will point out in our submission dealing with truck transportation the problem of regulating those segments of an industry which are essentially monopolistic is to make certain that all factors are not equated at the monopolistic level.

The "Stop-off" Privilege is one which has certain implications for industrial location. It has been recognized by the Board in several judgments[(1)] that this is a privilege which it is the prerogative of the railway to give. In the Board's view the only jurisdiction the Board has in the matter of "stop-off" privileges is in regard to discrimination which may result from the privilege. It is our contention that this matter should not be left in the control of the railways alone.

Rate Groups have a bearing upon industrial location. In the absence of production area rate groups there is a tendency to concentrate industrial activity at one point. In our opinion this is not desirable, more particularly in connection with agricultural processing plants. If one location in a general vegetable producing area, for instance, can obtain a lower rate than other locations slightly further away from the common market but in the same general producing area, an unwarranted advantage is conferred upon that location. We submit that the principle of grouping freight rates from the same production area to common market points should be a recognized feature of the freight rate structure.

There are several aspects to the problem of Developmental and Temporary Rates which are related to industrial location. In the first instance we submit that rates granted to a new industry should be on the same basis as the rates to comparable industries in other parts of the country. If special circumstances exist which make it necessary or desirable for a new industry to have a lower than normal rate, the making of such a rate should be the concern of the railways, the industry and the Board. Developmental rates when made should be limited in time otherwise industry becomes adjusted to a lower than

(1) See, for example Simcoe Fruits, Ltd. and Ontario Fruit Growers Association v. Grand Trunk and Canadian Pacific Ry. Cos (1913) 14 C.R.C. 370; United Grain Growers et. al. v. Canadian Freight Association (1918) 24 C.R.C. 128.

normal rate which under present conditions may be removed arbitrarily and without sufficient notice. When this course is not followed we have situations developing such as were brought to the attention of the Commission in the regional hearings by the purebred livestock breeders. See evidence taken at Calgary, pages 1865 to 1896.

Temporary rates, sometimes referred to as expiry rates, are in somewhat the same position as developmental rates inasmuch as they represent a temporary reduction from the normal rate. Because the renewal of these rates is at the discretion of the railway they place the shipper in a position of uncertainty with regard to his future transport costs.

PART III

CARRIER REGULATION AND INDUSTRIAL LOCATION

A. Railroad Management.

The place that railroad policies and management occupy in the field of industrial location is an important one. An initial and realistic assumption is that the railways make a determined effort to encourage the establishement and operation of industry on their lines. The primary object of such railway enterprise is of course to obtain paying traffic and incidentally to sell property and other ancillary services. Railroad management is therefore concerned with industrial location to the extent that such activity will increase their net return. The question naturally arises therefore: Is there a necessary and acceptable relation between this objective and the broader objectives of regional and national economic policy? If there is it may be safely left to the railways to freely exert their influence in the field of industrial location because what is to their advantage is to the general good. If this necessary relation is not present then conflicts between railway objectives and the broader needs and aims of the economic body will emerge.

On *a priori* grounds the assumption that railway policy is in fact compelementary to what may be termed 'national' objectives must be suspect. The railway is after all concerned with moving goods; in general the more goods which are moved, and the greater the distance such goods are moved, the greater will be the revenue, and presumably the profit, to the railway. The railways, it may be expected, will act in their own best interest. Realizing this however merely points to the folly of assuming that industrial location is a matter which can safely be left to the working of railway policy alone.

A recent case before the Board of Transport Commissions [1] provides

(1) McColl Frontenac Oil Co. Ltd. Agreed Charge Application (1949) 39 J.O.R.R.

a practical illustration of the consequences of such a philosophy.

The Canadian National Railway, the Canadian Pacific Railway Company and the McColl Frontenac Oil Company Limited under the provisions of the Transport Act, 1938, applied to the Board of Transport Commissioners for approval of an Agreed Charge. The substance of the arrangement was that the railways would carry petroleum products from the Lakehead to certain McColl Frotenac distributing points in Saskatchewan at a lower than normal rate. The petroleum products to be carried originated at the Montreal refinery of McColl Frontenac and were processed from foreign crude oil. These products would move to the Lakehead by boat or rail and then westward on the Agreed Charge.

The railways gave several reasons for making this Agreed Charge. For our purposes the most important of these is found in a letter from F. C. S. Evans, Vice-President and General Counsel of the Canadian Pacific Railway Company, to the Secretary of the Board of Transport Commissioners dated the 15th of May, 1947, and attached hereto as Appendix B.(2) Paragraph (d) on page 2 of Mr. Evans' letter reads as follows:

> "(d) To avoid the construction of a refinery by the McColl Frontenac Company Limited at a point in the prairie provinces which would result in the railways receiving only low revenue on the inbound crude oil and the probability of losing the outbound traffic to truck transportation."

B. The Board of Transport Commissioners.

The attitude and actions of the Board of Transport Commissioners in the matter of industrial location may be conveniently considered under two headings: (1) The relation between rates on raw materials and rates on finished products, and (2) Market rates and market competition.

(2) Mr. A. K. Dysart, Assistant General Solicitor for the Canadian National Railway in a communication to the Secretary of the Board dated May 10 gave similar reasons for making the Agreed Charge.

10581

(1) The Relation between Rates on Raw Materials and the Rates on Finished Products.

In Kemp Manufacturing & Metal and Winnipeg Ceiling & Roofing Cos. v. Canadian Pacific Ry. Co. (1909) 10 C.R.C. 161, Mr. Commissioner McLean said at page 168:

> "It is a natural trade condition for manufacturers, conditions of capital and demand being satisfactory, to carry forward the raw material to the point most economically adjacent to the centres of demand and then manufacture it. Normally this means that the long haul of the raw material is at a low rate, while a higher rate is on the finished material from point of manufacture to point of destination. Sometimes both the raw and the finished materials may be in the same class. To find the raw material classed higher is abnormal. The natural trade condition spoken of is constantly shown in the contests of various centres over distributing rates. Whether a centre shall have a distributing territory tributory to it, and what that territory shall be, is something which in general, in my opinion, lies outside of the scope of the Board's functions. It is a matter which must be left to general trade conditions to adjust. The Board becomes interested in it only because of some complaint of discrimination or unreasonableness of rate.
>
> "It is not for the Board to attempt to direct trade development. That is something which must be worked out in other ways. But, for the Board to stand on the former order, regardless of changed industrial conditions, is for it to place a traffic obstacle in the way of legitimate trade developments."

This judgment starts from the assumption that it is 'natural' to move raw materials rather than finished products. The problem is thus assumed out of existance. It is out submission that it is only 'natural' to move raw materials if, given the rates on raw material and finished product, the input output ratio of the raw material and the product is such that it is cheaper to forward the raw material. There is nothing inherently right about moving raw materials over long distances and in fact such a procedure is more likely to be inherently wrong because it involves wasted transportation effort.

The most reasonable argument for higher rates on processed products rests on their higher value; and the assumption that the higher priced commodity 'can afford to pay' the higher rate. It is probably that, in general, the movement of a higher priced product will not be more seriously affected by a high rate than will the movement of a lower priced product by a low rate. However, this is not necessarily so in

10582

particular cases. The effect in each case depends not only on the relation of the rate to the price but also on the elasticity of demand. In short, the process of determining rates on raw materials and finished products is essentially arbitrary — a fact which cannot be obscured by the use of question-begging terms such as 'reasonable', 'non-discriminatory' or 'just'.

In Dominion Sugar Co. v. Canadian Freight Association (1912) 14 C.R.C. 188, the Board held that:

> "Carriers are not required to adjust their rates (apart from the general question of reasonableness) in such manner as to equalize cost of manufacturing production in different sections; nor is it necessary that rates on raw material and finished product should be so related as to tend to that result."

The finding in this case makes it plain that the relationship between raw material rates and finished product rates is left to the railroads.

Chief Commissioner, Sir Henry L. Drayton, K.C., said in International Paper Co. v. Grand Trunk, Canadian Pacific and Canadian Northern Ry. Cos., (1913) 15 C.R.C. 111, at pages 114 and 115:

> "This principle, that is, the right of the carrier to consider the resultant traffic as a reason for a lower rate on the original commodity where drawn to points of manufacture on the carrier's line, is well established by the judgment of the Board in Michigan Sugar Co. v. Chatham, Wallaceburg and Lake Erie Ry. Co., Canadian Railway Cases, Vol. XI., page 353. There are, of course, objections to the principle. It may well be that the original shippers should obtain, in all instances, the same rates on the rough commodity; but it is impossible to discontinue the application of the principle in this case without a complete revision of existing tariffs, which have been, in many cases, built up entirely having regard to it.

This judgment confirms the position taken in the Michigan Sugar Case but records the recognition of the Board that there are valid objections to the principle.

In Provinces of Alberta & Saskatchewan et al v. Canadian Pacific and Canadian National Ry. Cos., (1928) 18 J.O.R.R. 406, Chief Commissioner Hon. H.A. McKeown, K.C., said at pages 412 and 413:

10583

"As a matter of fact, a study of the tariffs reveals that the normal basis on these commodities has been the class rates, subject at various times to lower commodity rates based on combinations available through certain gateways, and subject as well, at times, to a reduction from the class rate basis accorded by the carriers as a measure of assistance to the industries interested, in order to aid them in meeting market competition.

"Further, it cannot be said that the present application to recognize the Winnipeg percentage spread, and to make it govern from all points, takes its rise from any changed conditions in the rate structure on these commodities, for the spread between the livestock and the class and commodity rates applying on fresh meat and packing house products from Winnipeg eastward, has always been less than that of the spread on the same commodities attaching to points west of the latter city; and in view of the criticism and statements contained in the record, it may be well to point out that, while the rates on livestock from western prairie points are on a relatively lower basis than from eastern Saskatchewan and Manitoba, such rate adjustment was not originated by this Board, but was initiated by the carriers in the exercise of their discretion in establishing rates to assist industries to develop markets and to meet market competition. For this purpose the carriers established on livestock blanket rates in western Saskatchewan and Alberta only a few cents higher than the rates applicable from points in eastern Saskatchewan and Manitoba. In doing so they asserted that this livestock rate adjustment was not a normal one but was of a special nature, and that it was established owing to a desire on the part of the carriers to develop the livestock industry of Western Canada, and to enable the producers to have the benefit of the eastern Canadian market. Rates established in this way, and under these circumstances, cannot be regarded as a standard by which other rates shall be determined. As long as such rates do not cause any unjust discrimination or undue preference with regard to other rates, such as is forbidden by the Railway Act, the Board is not inclined to intervene against their establishment, but it is still less inclined to adopt them as a standard for other tariffs."

and further at page 414:

"While I am not convinced of the necessity, nor indeed the propriety, of establishing a percentage relation between these two sets of rates, nevertheless it is not difficult to see that a condition could arise in which special rates on livestock being accorded to eastern packing companies, would operate to the disadvantage of western packers in marketing their finished products in competition with eastern packing houses. It is this condition, I think, which the Swift Canadian Company, supported by packers west of Winnipeg, are complaining of, alleging that the totality of these rates produces an unjust discrimination in favour of plants located at Winnipeg and in eastern Canada, and that the livestock rates from Prairie points to eastern Canada detrimentally affect the ability of these plants to ship east and south."

and further at page 418:

"The equalization above contended for would involve a rearrangement whereby the combined rates on livestock in and on meat and packing house products outward, would produce through transportation charges equal for all Canadian packers. As a matter of tariff construction this would seem to be impracticable, and would resolve itself into an attempt to create such a condition regardless of the reasonableness of the rates *per se*, or of the anomalies that would be created."

In conclusion it is stated at page 421:

"Taking the record as whole, it cannot be said that a case has been made out showing that the rates from points west of Winnipeg to eastern Canada are unreasonable per se, or unjustly discriminatory against applicants. Further, in my opinion, there is not sufficient upon the record to demand or justify a reduction in the rates to Vancouver, Seattle or Chicago, or a readjustment and blanketing of the rates from Regina and Moose Jaw."

In Province of Alberta, and Gainers Ltd. v. Canadian Pacific and Canadian National Ry. Cos., (1928) 18 J.O.R.R. 356, Chief Commissioner

"This application seeks to establish a relationship between the freight rates on live hogs and rates on packing-house products, in the movement from Edmonton to Seattle and other United States points, and it is contended that there should be a reduction in the current rates chargeable for moving the latter commodities.... The substance of applicant's submission at Edmonton is, that if the dressed products of hogs can be carried at the rate prevailing for the carriage of the live animals, including a waste weight carried in the latter case, it will be to the material advantage of the Alberta packer in meeting competition in Seattle, U.S.A."

Having thus outlined the nature of the complaint, the learned Chief Commissioner denied the application. He took the position that rates charged upon fresh meat on a single line haul in Canada afford no indication of the reasonableness of rates from Edmonton to Seattle, which movement involves a haul over two or three lines. Upon this ground and upon the ground that the rates complained of had not been shown to be unreasonable per se or unjustly discriminatory, the Board dismissed the application for reduced rates upon packing-house products.

In these livestock cases the contention that there should be a favourable relation between the rates on Alberta 'export' meat and 'export' livestock was rejected.

In the Provinces of Alberta and Saskatchewan et al Case the application was rejected because the learned Chief Commissioner was not convinced that the rate relation complained of was discriminatory as far as the western plants were concerned. He also felt that establishing all western plants at the Winnipeg relation would be impractical.

In the Gainers Case the learned Chief Commissioner decided the question upon the basis of the rate construction used for international shipment. With deference to the learned Chief Commissioner it seems that after clearly stating the problem he ignored it.

In the first of the above cases reference was made to several judgments of the Interstate Commerce Commission.(1) A brief review of the attitude of that tribunal in this matter is therefore of interest.

In 1894 the Interstate Commerce Commission recognized that the competition between the transportation of livestock and of meat made the relationship between the rates a matter subject to the clause in the law forbidding undue preference and prejudice. It said, "In contemplation of the Act, as we interpret it, these competitive articles (live animals and products) are to be treated as one subject by the carriers in providing for their transportation."(2) This meant that there should be a fixed relationship between the rates on meats and the rates on livestock moving into interstate commerce.

In 1911 the Commission reaffirmed this view but expressed an unwillingness to say what the relationship should be. In 1915 in the Eastern Live Stock Case 36 I.C.C 675, the Commission adjusted both the meat and the livestock rates but did not commit itself as to whether or not the resulting relationship was absolutely correct.

Finally in 1928 the Commission in the Eastern Livestock Cases of 1926, 144 I.C.C. 731, abandoned any hope of fixing the relationships.(3)

In Westbound Rates on Meats 210 I.C.C. 13 decided in 1935 the Commission found that the rates from interior points to the coast, although generally much higher on meat than on livestock, were not prejudicial and they approved the existing scale of charges. It might have been concluded from this judgment that the Commission had abandoned

(1) See 18 J.O.R.R. 406, pp. 418 to 421

(2) See John P. Squire & Co. v. Michigan Central Ry. Co., 4 I.C.C. 611, on page 628.

(3) It is of interest to note that although the Commission abandoned the hope of fixing a constant and definite relation between meat and livestock the most important adjustment in the United States, namely, the Chicago-New York adjustment, has in fact been almost constant for thirty years.

the thought of treating meat rates and livestock rates as related in any way and that henceforth any call for adjustment would be refused. In 1945, however, the decision in Geo. A. Hormel & Company et al v. Atchison, Topeka & Santa Fe Railway Company et al 263 I.C.C. 9 was handed down. In this Case the Commission reviewed and clarified previous judgments on the matter of meat and livestock rates.

The General Conclusions in this case are, in part, as follow: (pp. 57 to 58)

"The assailed rates do not permit free movement of meats from the midwest to the Pacific coast. In the case of the products of hogs this is due almost wholly to the fact that the rates on meats are excessive as compared to those on the live animals. From Omaha to Los Angeles, for example, the rate on fresh meat is about 249 percent of that on the live animal, whereas in the opposite direction from Omaha to New York the rate on fresh meat is only 136 percent of the rate on the live animal. The relation to New York was prescribed by us on transportation standards after extensive litigation and has been observed for many years. The higher relation to Los Angeles is due partly to our prescription of low rates on the live animals and partly to the maintenance by the carriers of high rates on meats. The west-bound relation between the two has never been specifically prescribed by us as it has to New York. There is no logical reason, however, for a greatly different relation west-bound than east-bound. The same intensive competition exists between the movement of live animals and carcasses in either case, the only difference being that in one case the movement is west-bound while in the other it is east-bound. The Omaha packer could not reach New York with his meats at rates 249 percent of those on the live animals, nor can he do so on that basis to Los Angeles. The rate on packing house products from Omaha to Los Angeles is 191.7 percent of the rate on the live animal, but to New York it is only 99.7 percent of that rate."

"Although most of the complainants do not here request what they call a fixed relation between the rates on the live animals and those on the dressed carcasses of such animals, each of them has made it plain that a reasonable maximum relation between the two must be observed if the packing industry in the Mid-west is to sell any of its products on the Pacific coast in competition with the products of live animals shipped from the Mid-west and slaughtered on the Pacific coast. The rates proposed by the title complainants would result in a relation to the rates on live animals from Omaha to Los Angeles, for example, of about 125 percent on packing-house products and 150 percent on fresh meats. These relations are 25 percent higher on packing house products and 14 percent higher on fresh meats than the relations prescribed by us from Omaha to New York. The Omaha intervener specifically requests prescription of the New York relation on fresh meats to Los Angeles, contending that if its competitors' rates on live animals have been measured by a minimum standard, Omaha's rates on meats must also be measured by the same standard to insure freedom of movement of meats. We need not elaborate on this contention as the livestock rates are not in issue and any deficiencies in those rates cannot be adjusted on this record."

"The Midwest is not here seeking, for example, to transport California hogs to the Mid-west for slaughter and then ship the meats produced therefrom back to California, but merely to intercept and slaughter in the Mid-west some of the midwestern hogs moving past the doors of its packers for slaughter in California.

Over 500,000 midwestern hogs move through the Denver area annually for the Pacific coast, but the record shows that none of these can be slaughtered at Denver under the present level of rates on meats from that city to the Pacific coast."

The general conclusion which emerges from this brief review of the judgments of the Interstate Commerce Commission is that although the Commission has not fixed definite percentage relations between meat and livestock rates they have recognized that the adjustment is an important one and have established rates which reflect the competitive situation on meat and livestock respectively.

Returning now to the Canadian situation we find that there is ample statistical proof of the fact that there is a measurable and significant discrimination against the processing of Alberta livestock in Alberta. Table 6 indicates the percentage relation which exists between fresh meat, packing-house products and livestock at certain selected processing points.

Table 6.
Meat-Livestock and Packing-House Products Ratios
From Selected Western Points
To Vancouver and Toronto(1)

	Livestock Rates	Meat-Livestock Ratio	Meat Rates	P.H.P.-Livestock Ratio	P.H. Products Rates
	¢	%	¢	%	¢
To Vancouver From:					
Edmonton	54	213	115	193	104
Calgary	56	205	115	186	104
Moose Jaw	75	212	159	189	142
Saskatoon	75	212	159	189	142
Winnipeg	91	209	191	188	171
To Winnipeg From:					
Edmonton	57	226	129	202	115
Calgary	62	215	133	192	119
Moose Jaw	42	195	82	174	73
Saskatoon	47	198	93	177	83
To Montreal and Toronto From:					
Edmonton	139	163	227	140	194
Calgary	139	163	227	140	194
Moose Jaw	134	147	197	124	166
Saskatoon	136	150	204	120	173
Winnipeg	103	142	146	117	121

(1) See tariffs CP 9-B, CP 490-C, CFA 116-A and CFA 103-P.

It is apparent from Table 6 that there is a wide discrepancy between the relations which are in effect at Winnipeg on eastern movements and those which are in effect from other points to Toronto. That this relation is in fact of consequence is shown by Table 7 which details the percentage distribution of livestock slaughterings in the Prairie Provinces for certain selected years from 1916 to 1940.

Table 7 (1)

Percentage Distribution of Live Stock Slaughterings in the Prairie Provinces 1916 - 1940

Year ended March 31	Hogs			Cattle & Calves			Sheep & Lambs		
	Man.	Sask.	Alta.	Man.	Sask.	Alta.	Man.	Sask.	Alta.
1916	42	9	49	47	5	48	38	11	51
1920	46	14	40	45	16	39	42	5	53
1924	48	6	46	65	3	32	50	1	49
1928	49	10	41	64	8	28	50	6	44
1932	48	11	42	63	10	27	56	7	37
1934	41	17	42	62	13	25	56	12	32
1936	38	18	44	62	13	25	56	11	33
1938	36	17	47	62	16	22	55	15	30
1940	38	11	51	71	9	20	59	13	28

(1) The Direct Marketing of Livestock. Marketing Service, Economics Division, Dominion Department of Agriculture. Publication 726, page 9.

Table 7 shows that over the years the proportion of the total hog slaughterings killed in Winnipeg plants has decreased slightly in favour of Saskatchewan and Alberta plants but the proportion of the total slaughterings of cattle, sheep and lambs handled in Winnipeg plants has increased considerably during the period 1916 1940. When we consider the slight reduction in the percentage of hogs slaughtered in Winnipeg[1] as compared to the decline in the percentage marketings of hogs in Manitoba the first difference is of less account. On the other hand the significant increase that has taken place in the percentage increase of provincial marketings of cattle, sheep and lambs in Alberta should be noted.[2]

(1) See Table 1B, supra.

(2) See Table 1B, supra. It may also be noted that slaughterings in British Columbia have increased at a much greater rate than marketings from that Province. This is also directly related to the disparities apparent from the figures in Table 6.

In summary: In the matter of raw material and finished product rates and more particularly in the matter of one such relationship of obvious importance to the Province of Alberta, it is apparent that the attitude of the Board of Transport Commissioners has had an appreciable and deleterious effect upon the location of secondary industrial activity in Alberta.

(2) Market Rates and Market Competition.

The manner in which the Board of Transport Commissioners has disposed of cases involving rates to meet market competition and rates to enable an industry to successfully compete within territory adjacent to it are of particular concern in the matter of industrial location.

In Doolittle & Wilcox v. Grand Trunk & Canadian Pacific Ry. Cos. (1908) 8 C.R.C. 10, Chief Commissioner Hon. J P Mabee said at page 13:

> "It strikes me as not unreasonable that the quarry near Toronto should enjoy the benefit of its natural location; but these nearby quarries have submitted for years to the establishment of these artificial rates by the companies, and without complaint have seen their outside competitors invest their capital and develop their industries; and it could hardly be regarded as fair that the short-haul quarry proprietors should, through the instrumentality of this Board, be enabled entirely to destroy their more distant brethren."

This is an interesting case because herein the Board would appear to have accepted certain business conditions and the matter of commercial equality as relevant factors in determining a just and reasonable rate. As will be seen later they explicitly deny the importance of these factors in other cases.

In Canadian Portland Cement Co. v. Grand Trunk and Bay of Quinte Ry. Cos. (1909) 9 C.R.C 209, Mr. Commissioner McLean said at pages 210 and 211:

> "No doubt the coal, of which from 40,000 to 45,000 tons per annum are consumed, does constitute an important factor in the cost. This phase of the application is in reality a plea that sec. 315, the 'equality' clause, should be used to bring about an equalization of costs of production. This clause is, however, concerned with traffic conditions. The allegations

regarding 'similar factories' are of no value unless the 'similar factories' are, under similar circumstances and conditions of traffic, accorded more favourable treatment. This has not been established. It is no part of the obligations of the railways, under the Railway Act, to equalize costs of production through lowered rates so that all may compete on an even keel in the same market."

This case establishes the fact that in the opinion of the Board railways cannot be required to adjust rates so that costs of production will be equalized. The decision is left to the railroad. Further to this point, Mr. Commissioner McLean in British Columbia Sugar Refining Co. v. Canadian Pacific Ry. Co. (1910) 10 C.R.C. 169, quoted with approval the Interstate Commerce Commission finding that "railroads are authorized to meet or not to meet competition as to them seems to their interest.... It is in the discretion of the railway whether it shall or shall not make rates to meet the competition of markets."(1)

In Imperial Rice Milling Co. v. Canadian Pacific Ry. Co. (1912) 14 C.R.C. 375, Mr. Commissioner McLean said at page 376:

"The Board has ruled in other cases that what it is concerned with is seeing that the rates are on a relatively equal basis; it is not its function to equalize costs of production."

In our submission the determination of rates "on a relatively equal basis" means that there is substantial mile for mile parity in particular rates. In the absence of such mile for mile parity, e.g., as with rates to meet market competition, there would therefore appear to be discrimination.

In Canadian China Clay Co. v. Grand Trunk, Canadian Pacific and Canadian Northern Ry. Cos. (1915) 18 C.R.C. 347, the Chief Commissioner, Sir Henry L. Drayton, K.C., said at page 348:

"It has been held time and again that rate regulating commissions have no right whatever to attempt to equalize geographic, climatic, or economic conditions. They are concerned simply and wholly with the question of the reasonableness of the toll which the railway company is seeking to collect for the carriage of a given commodity, irrespective of how it is made, or whence it comes."

(1) Lasalle Paper Co. v. Michigan Central Ry. Co. 16 I.C.C. 149 at page 150.

Our contention is that geographic, climatic and economic conditions are in reality of primary importance in assessing the reasonableness of a toll, because reasonableness must be related to the value of the service given to a commodity. We further contend that, in the past, insufficient recognition has been given by the Board to the degree to which the three factors influence the reasonableness of a rate applying from a particular point. In our view, decisions regarding rates to meet market competition, i.e., competition due to more favourable geographic, climatic or economic circumstances, should be the direct concern of the Board.

In Fraser Valley-Surrey Farmers' Co-operative Ass'n. v. C.P.R. & C.N.R., (1935), 43 C.R.C. 97 at pp. 121-2, the Board summarized its previous findings when it referred to the following cases:

"In Board of Trade of Coalhurst v. C.P.R., 31 C.R.C. 396 at p. 399:

> 'The Board has indicated that in the matter of rates, for example, its function is concerned with complaints as to unreasonableness or as to unjust discrimination, and that it is not empowered to put in rates simply to develop traffic; that is to say, the Board is not empowered by Parliament to act as an arbiter of industrial policy. If it were so empowered, there would need to be explicit words; and if such a power were conferred, the Board would then be able to pass upon the question whether an industry should be allowed to develop in one section or another. No such power has been conferred. The railway, subject to the inhibitions as to unjust discrimination, may give a reduced rate basis to develop traffic. It takes the responsibility of the profit or loss in connection with the transaction. The Board, under the Railway Act, has no profit or loss responsibility, and its intervention in the matter of rates must, as has been indicated, be concerned with matters falling within the broad categories of reasonableness and unjust discrimination, and not with a policy of developing industries through rate adjustments.'

"In Halifax Harbour Com'rs et al v. C.N.R., 37 C.R.C. 247, at p. 252:

> 'The powers which are conferred upon the Board are regulative and not managerial. It is not the Board's function, as delegated by Parliament, to make rates to develop business, but to deal with the reasonableness of rates, either on complaint or of its own motion. British Columbia News Co. v. Express Traffic Ass'n., 13 C.R.C. 176.

'The Board must find the scope of its powers within the Railway Act or such other Act of Parliament as may be found to be pertinent, as, for example, the National Transcontinental legislation. It has been decided that the railways have powers in regard to developing traffic which are not held by the Board; that is to say, the railway, taking the risk of profit or loss, may put in a rate to develop traffic which it would not be justifiable for the Board to instal. The railway may put in development rates with a view to increasing traffic, but such rates, I submit the Board has no power to put in.'"

While it is true that the Board takes no profit or loss risk, in the commercial sense, the overall results of the railways' financial operations are most certainly the concern of the Board.

The Board has held on many occasions that it is not the "arbiter of industrial policy".(1) If freight rates have a significant effect upon industrial location (and we submit this is a fact which has been demonstrated in this Brief) the effect of such a decision by the Board is to leave these matters within the competence of the railways. In our view, for reasons made clear above, the railways are unacceptable as arbiters of industrial policy. We submit that the Board should assume an active role in these matters.

(1) See National Dairy Council of Canada v. C.P.R. and C.N.R. (1922) 28 C.R.C. 75 for example.

Part IV - SUMMARY AND RECOMMENDATIONS.

In this Submission, we have dealt with the effect upon industrial location in Alberta of the relation between raw material rates and finished product rates. We have also dealt with market rates, and under that general description we have discussed the implications of Long-and-short-haul Discrimination; Interline Rates; Distributing Rates; Agreed Charges; "Stop-off" Privileges; Rate Groups; Developmental Rates and Temporary Rates. We now summarize our recommen ations with respect to these various matters.

A. Raw Material and Finished Product Rates.

In the matter of raw material and finished product rates it is our submission that either rates should be passive or they should encourage producer location. In any instance where a processor or manufacturer feels that rate relations adversely affect his particular business he should have the right to take his complaint to the Board of Transport Commissioners. If he is able to satisfy the Board that his contention is sound the Board should be authorized to make whatever rate adjustments are required. In making this adjustment the Board may change either the raw material rate or the finished product rate, having regard to the relative rate levels applicable on these two classifications, vis-a-vis similar raw materials and products.

B. Market Rates.

The recommendations regarding Long-and-short-haul Discrimination which are to be found in our separate Submission on the "Long and Short Haul Rule" will remove the objectionable locational disabilities arising from the present practice.

The recommendations regarding Interline Rates which are to be found in our separate Submission on "Interline Rates; The Freight Classification; The Carload Mixing Rule" will remove the objectionable locational disabilities arising from the present practice.

The recommendations regarding Distributing Rates which are to be found in our separate Submission on "Rate Making Principles and the Rate Structure" will remove the objectionable locational disabilities

arising from the present practice.

As to Agreed Charges we submit that Section 5 of the Transport Act, 1938, 2 GEO. VI Cap. 53, as amended, should be repealed.

We submit that the granting of all "Stop-off" Privileges should be under the direct control of the Board of Transport Commissioners. We submit that the freight rate structure should recognize the principle of Rate Groups, i.e. the principle of establishing common rates from the same production area to common market points.

In our view Developmental Rates may be granted by the railways to a new or developing industry for a limited time only. If, after the conclusion of the reduced rate period the industry requires an extension of the effective period of the reduced rate, such extension must be approved by the Board.

We submit that Temporary Rates be granted only for occasional, non-recurring or special movements. The granting of such rates should be subject to the approval of the Board.

In the matter of rates made to meet market competition it is our submission that rates of this type are not competitive in the ordinary or usual sense in which that term is used. All rates which are made to meet market competition should be subject to prior examination and approval by the Board. Before such approval is granted it should be demonstrated that the general welfare of the particular industry will be advanced and that it is in the interests of the carriers and of the consuming public that such rates be established.

10595

APPENDIX A

Interprovincial and Export Shipments of Live Stock

through Live Stock Yards, by Provinces of Origin (excluding Alberta) (1) (2)

Alternate Years 1930-1946.

(Thousands of Animals)

FROM BRITISH COLUMBIA

TO

YEAR	ALTA.	SASK.	MAN.	ONT.	QUE.	MARITIMES	OTHER COUNTRIES	TOTAL
				Cattle and Calves				
1930	.04	-	-	-	-	-	1	1.04
32	-	-	-	-	-	-	.09	.09
34	.07	-	-	-	-	-	.3	.37
36	.06	-	-	-	-	-	38	38.06
38	.2	-	-	-	-	-	13	13.2
40	.5	.02	-	-	-	-	19	19.52
42	1	.06	-	.06	-	-	1	2.12
44	3	-	.05	.03	.02	-	.1	3.2
46	6	-	-	-	-	-	.4	6.4
				Hogs				
1930	-	-	-	-	-	-	.01	.01
32	-	-	-	-	-	-	.02	.02
34	.3	-	-	-	-	-	.03	.33
36	-	-	-	-	-	-	23	23
38	-	-	-	-	-	-	.03	.03
40	-	-	-	-	-	-	.2	.2
42	-	5	-	-	.04	-	-	5.04
44	1	-	-	-	-	-	-	1
46	9	-	.2	-	-	-	-	9.2
				Sheep and Lambs				
1930	-	-	-	-	-	-	-	-
32	-	-	-	-	-	-	.03	.03
34	-	-	-	-	-	-	.01	.01
36	-	-	-	-	-	-	.9	.9
38	-	-	-	-	-	-	.4	.4
40	.4	-	-	-	-	-	.5	.9
42	.2	-	-	-	.02	-	.1	.32
44	.4	-	-	-	-	-	.03	.43
46	1	-	-	-	-	-	.2	1.2

(1) Source: Livestock and Animal Products Statistics - D.B.S.
(2) Note: Shipments to other provinces may include same quantities subject to further shipments.

APPENDIX A (continued)

Interprovincial and Export Shipments of Live Stock

through Live Stock Yards, by Provinces of Origin (excluding Alberta) (1) (2)

Alternate Years 1930-1946

(Thousands of Animals)

FROM SASKATCHEWAN

TO

YEAR	B.C.	ALTA.	MAN.	ONT.	QUE.	MARITIMES	OTHER COUNTRIES	TOTAL
				Cattle and Calves				
1930	.2	.3	86	5	1	-	.9	93.4
32	.08	.7	88	6	4	-	.02	98.8
34	.6	.4	140	8	9	.03	-	158.03
36	.1	1	249	35	6	.4	32	323.5
38	.06	.03	134	8	.8	-	25	167.89
40	1	.03	185	19	2	-	16	223.03
42	.05	2	198	13	.3	.2	5	218.55
44	.4	4	296	10	11	-	.07	321.47
46	1	7	335	20	14	-	.1	377.1
				Hogs				
1930	-	.6	166	20	34	-	-	220.6
32	.4	.2	262	12	69	-	-	343.6
34	.5	.04	275	.2	10	-	-	285.74
36	.5	.3	316	.2	1	-	3	321
38	-	-	113	.1	.1	-	.04	113.24
40	-	.02	440	.06	.5	-	-	440.58
42	-	.2	441	.6	.5	-	-	442.3
44	.03	2	822	41	3	-	-	868.03
46	-	-	192	.3	.3	-	.05	192.65
				Sheep and Lambs				
1930	.4	-	18	1	.2	-	.01	19.61
32	1	2	20	9	.05	-	-	32.05
34	.5	2	33	18	.6	-	.02	54.12
36	-	3	41	24	1	-	.01	69.01
38	-	.6	31	15	.5	-	-	47.1
40	.4	5	34	17	-	-	.02	56.42
42	.4	3	36	14	-	-	.06	53.46
44	-	2	62	13	-	-	9	86
46	.06	.4	73	19	2	-	.02	94.48

10597

APPENDIX A (continued)

Interprovincial and Export Shipments of Live Stock through Live Stock Yards, by Provinces of Origin (excluding Alberta)

Alternate Years 1930-1946.

(Thousands of Animals)

FROM MANITOBA

TO

YEAR	B.C.	ALTA.	SASK.	ONT.	QUE.	MARITIMES	OTHER COUNTRIES	TOTAL
				Cattle and Calves				
1930	.4	.03	2	38	12	.04	4	56.47
32	-	.1	.6	36	15	-	.05	51.75
34	.03	-	.2	39	21	.09	.8	61.12
36	-	-	.3	71	12	.1	50	133.4
38	-	-	3	52	4	.03	25	84.03
40	-	-	-	83	2	.09	71	156.09
42	-	1	.4	50	3	-	.8	55.2
44	-	-	1	65	13	-	.1	79.1
46	-	1.6	.5	76	15	-	.06	93.16
				Hogs				
1930	.3	-	.1	21	52	-	-	73.4
32	.4	-	-	27	91	-	-	118.4
34	.2	-	-	6	95	-	-	101.2
36	.1	-	-	6	27	-	3	36.1
38	.1	-	.1	.5	7	-	-	7.7
40	.4	.1	.5	.1	.7	-	.01	1.81
42	-	-	1	5	1	-	-	7
44	-	-	.5	10	.4	-	.08	10.98
46	-	-	.02	8	6	-	.1	14.12
				Sheep				
1930	-	-	.1	1	.4	-	.02	1.52
32	-	-	-	.2	-	-	-	.2
34	-	.2	-	.2	.03	-	.02	.45
36	-	-	.03	2	.6	-	-	2.63
38	-	-	.1	8	-	-	.02	8.12
40	-	-	.08	17	.2	-	.05	17.33
42	-	.1	-	.8	-	-	-	.9
44	-	2	.6	10	.2	-	.8	13.6
46	-	-	.06	3	4	-	.2	7.26

APPENDIX A (continued)

Interprovincial and Export Shipments of Live Stock

through Live Stock Yards, by Provinces of Origin (excluding Alberta)

Alternate Years 1930-1946.

(Thousands of Animals)

FROM ONTARIO

TO

YEAR	B.C.	ALTA.	SASK.	MAN.	QUE.	MARITIMES	OTHER COUNTRIES	TOTAL
				Cattle and Calves				
1930	-	-	-	.9	77	.1	40	118
32	-	-	-	.3	97	-	9	106.3
34	-	-	.03	.5	163	-	4	167.53
36	-	-	-	.9	146	-	104	250.9
38	-	-	-	.6	173	-	68	241.6
40	-	-	-	2	147	.02	106	255.02
42	-	-	-	4	156	1	53	214
44	-	-	-	4	164	.6	35	203.6
46	-	-	-	4	193	.2	56	253.2
				Hogs				
1930	-	-	-	.3	130	-	.02	130.32
32	-	-	-	.1	252	-	1	253.1
34	-	-	-	.6	195	-	-	195.6
36	-	-	-	.4	252	-	39	291.4
38	-	-	-	.1	228	-	.1	228.2
40	-	-	-	2	394	-	.03	396.03
42	-	-	-	1	256	-	.03	257.03
44	-	-	-	2	287	-	.1	289.1
46	-	.1	-	.1	198	.01	1	199.21
				Sheep and Lambs				
1930	-	-	-	2	11	-	2	15
32	-	-	-	.6	14	-	.7	15.3
34	-	-	-	4	24	-	1	29
36	-	-	-	2	20	-	2	24
38	-	-	-	4	48	.05	2	54.05
40	-	-	-	6	26	.03	3	35.03
42	-	-	-	6	28	-	2	36
44	-	-	-	5	23	-	13	41
46	-	-	-	9	37	-	2	48

10599

APPENDIX A (continued)

Interprovincial and Export Shipments of Live Stock

through Live Stock Yards, by Provinces of Origin (excluding Alberta)

Alternate Years 1930-1946.

(Thousands of Animals)

FROM QUEBEC

TO

YEAR	B.C.	ALTA.	SASK.	MAN.	ONT.	MARITIMES	OTHER COUNTRIES	TOTAL
				Cattle and Calves				
1930	-	-	-	-	11	.02	12	23.02
32	-	-	-	-	9	-	18	27
34	-	-	-	-	3	.02	39	42.02
36	-	-	-	-	2	.05	46	48.05
38	-	-	-	-	4	.2	25	29.2
40	-	-	-	-	28	-	15	43
42	-	-	-	-	7	.1	6	13.1
44	-	-	-	-	7	.03	8	15.03
46	-	-	-	-	3	.02	14	17.02
				Hogs				
1930	-	-	-	-	.5	-	.03	.53
32	-	-	-	-	.07	-	.5	.57
34	-	-	-	-	.04	-	.05	.09
36	-	-	-	-	.3	-	.8	1.1
38	-	-	-	-	.3	-	.1	.4
40	-	-	-	-	.07	-	.05	.12
42	-	-	-	-	.06	-	-	.06
44	-	-	-	-	2	-	.03	2.03
46	-	-	-	-	-	-	.1	.1
				Sheep and Lambs				
1930	-	-	-	-	12	-	.2	12.2
32	-	-	-	-	4	-	-	4
34	-	-	-	-	3	-	-	3
36	-	-	-	-	4	-	.1	4.1
38	-	-	-	-	2	-	.07	2.07
40	-	-	-	-	2	-	.04	2.04
42	-	-	-	-	4	-	.06	4.06
44	-	-	-	-	6	-	.8	6.8
46	-	-	-	-	3	.2	.02	3.22

APPENDIX A (continued)

Interprovincial and Export Shipments of Live Stock through Live Stock Yards, by Provinces or Origin (excluding Alberta) Alternate Years 1930-1946.

(Thousands of Animals)

FROM MARITIMES

TO

YEAR	B.C.	ALTA.	SASK.	MAN.	ONT.	QUE.	OTHER COUNTRIES	TOTAL
				Cattle and Calves				
1930	-	-	-	-	-	3	4	7
32	-	-	-	-	-	.8	5	5.8
34	-	-	-	-	-	2	22	24
36	-	-	-	-	-	4	13	17
38	-	-	-	-	.02	7	19	26.02
40	-	-	-	-	.1	21	5	26.1
42	-	-	-	-	.03	22	2	24.03
44	-	-	-	-	.1	8	1	9.1
46	-	-	-	-	.02	16	4	20.02
				Hogs				
1930	-	-	-	-	-	4	2	6
32	-	-	-	-	-	.7	4	4.7
34	-	-	-	-	-	3	5	8
36	-	-	-	-	-	2	7	9
38	-	-	-	-	-	13	5	18
40	-	-	-	-	-	4	7	11
42	-	-	-	-	-	2	4	6
44	-	-	-	-	1	11	.4	12.4
46	-	-	-	-	-	.6	3	3.6
				Sheep and Lambs				
1930	-	-	-	-	-	11	1	12
32	-	-	-	-	-	9	.9	9.9
34	-	-	-	-	-	4	.6	4.6
36	-	-	-	-	-	3	.7	3.7
38	-	-	-	-	-	5	.6	5.6
40	-	-	-	-	-	6	.3	6.3
42	-	-	-	-	-	6	.3	6.3
44	-	-	-	-	-	3	.02	3.02
46	-	-	-	-	-	5	.1	5.1

10801

APPENDIX B

CANADIAN PACIFIC RAILWAY COMPANY
S. F. 273
Law Department

Montreal 3

May 15, 1947.

P. F. Baillargeon, Esq.,
Secretary,
Board of Transport Commissioners for Canada,
Ottawa.

Dear Sir:

Re: Proposed Agreed Charge between Canadian National Railways, Canadian Pacific Railway, and McColl-Frontenac Oil Company Limited - Petroleum Products from Fort William, Port Arthur and West Fort William, Ont. to destinations in the Province of Saskatchewan.

Will you kindly disregard my letter of yesterday's date in this matter which was occasioned by the fact that the copy of Mr. Kleinsteiber's letter to you of April 24 had been sent directly to Mr. Jefferson, and I had not yet received instructions in the matter. However, Mr. Jefferson has now supplied me with a copy of Mr. Kleinsteiber's letter together with copies of letters from the North Star Oil Limited of May 3 and May 9.

General Order of the Board No. 581 provides that any objection to an Agreed Charge shall be submitted within thirty days from the date of publication of notice in the Canada Gazette, and while the objection of the Imperial Oil Company was filed within thirty days, there seems to be considerable doubt that that of the North Star Oil Limited has complied with the regulations in this respect.

The proposed Agreed Charge as stated in Exhibit No. 1 of the application of the Canadian Freight Association to the Board, dated 24th March, was made by the Railways with the shipper for the purpose of obtaining its total requirements of refined petroleum products as described in Paragraph (b) of the proposed Agreed Charge for destinations in the Province of Saskatchewan by rail from Fort William, etc.

The reason given by the McColl-Frontenac Oil Company Limited to the Railways when negotiating the proposed Agreed Charge, was that effective 1st May, 1947 the Imperial Oil Limited would discontinue their contract with the McColl Company, and the products of which were delivered to the McColl Company at Regina for sale in the Province of Saskatchewan. The Imperial Oil Limited had informed the McColl Company that they would be unable to process any further quantities of crude oil for the McColl Company because the Imperial Oil Limited needed the entire capacity of their refinery for its own products.

The object of the proposed Agreed Charge between the Railways and the McColl-Frontenac Oil Company Limited is

10601

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The object of the proposed Agreed Charge between the Railways and the McColl-Frontenac Oil Company Limited is

clearly set forth in Exhibit No. 1 of the application of 24th March, and may be briefly summarized to be as follows:-

(a) To secure to the Railways the long haul on gasoline and other refined petroleum products from the Head-of-the-Lakes to Saskatchewan account McColl-Frontenac Oil Company Limited, which traffic had heretofore moved only in small volume to Saskatchewan, compared with the short haul of crude oil from the international boundary at low rates.

(b) to increase the net revenues of the Railways.

(c) to prevent the trucking of refined petroleum products distributed by the McColl-Frontenac Oil Company from the refineries at Regina and Moose Jaw to points in the Province of Saskatchewan, or

(d) to avoid the construction of a refinery by the McColl-Frontenac Oil Company Limited at a point in the Prairie Provinces which would result in the Railways receiving only low revenues on the inbound crude oil and the probability of losing the outbound traffic to truck transportation.

The above objects cannot adequately be secured by means of a special or competitive tariff of tolls under the Railway Act or the Transport Act, as the Railways would have no guarantee under a special or competitive tariff that the traffic would move via the long haul from the Head-of-the-Lakes to Saskatchewan but, on the other hand, would enable other shippers without the same guarantee to pick and choose their transportation medium or source of supply, which would result in the Railways being deprived of a great part of the rates which are far below the rates on refined products proposed in the Agreed Charge.

The rates in the proposed Agreed Charge were based upon the following factors:-

(1) The crude oil rate of 39 cents per 100 lbs., published from the Head-of-the-Lakes to the refinery at Regina.

(2) The addition of a 10% premium over the rate of 39 cents to compensate for the invisible loss of crude oil in refining process, making the equated cost of crude oil brought to Regina, of 43 cents per 100 lbs.

(3) The outbound fifth class rate as the basis for the transportation charge for refined products from Regina to the points in Saskatchewan specified in the Agreed Charge - this notwithstanding the fact that it is known to the Railways that approximately 50% of the refined products from the Regina refinery are shipped by truck presumably at a lower cost than the fifth class rail rate.

The combination of the three factors above referred to results in an average rate equivalent to 70% of fifth class from the Head-of-the-Lakes to the destinations in Saskatchewan specified in the Agreed Charge. If the assumed cost of truck transportation is used instead of the full fifth class from Regina, and basing such assumed cost of the present Agreed Charge rates applied from Calgary, the three factors above referred to result in an average rate equivalent to 65% of fifth class.

The submissions of the Imperial Oil Limited and North Star Oil Limited contain little if any material in support of their allegation that the proposed Agreed Charge unjustly discriminates against their respective companies.

10603

It is therefore submitted that inasmuch as in these submissions the Imperial Oil Limited and the North Star Oil Limited have failed to approve, all of the requirements of the Transport Act and the Board's regulations with respect to Agreed Charges having been fully complied with by the shipper and the Railways.

I am sending copies of this letter to Mr. A. K. Dysart, Assistant General Solicitor, Canadian National Railways, Mr. W. E. Kleinsteiber, Traffic Manager, Imperial Oil Limited, Toronto, Mr. V. Smith, Traffic Manager, McColl-Frontenac Oil Limited, Montreal, and Mr. F. Ainsworth, Traffic Manager, North Star Oil Limited, Winnipeg.

S/DEB
/ MAS

Yours truly,

"F.C.S. Evans"

(Page 10625 follows)

EXAMINED BY MR. FRAWLEY:

Q. Professor Stewart -- I might say, for the information of the Commission, we put on the record at Edmonton your qualifications. They will be found at Pages 1933 and 1934 of the record. You are the Head of the Department of Political Economy at the University of Alberta?

A. Yes, sir.

Q. And you collaborated with Mr. Harries and Mr. Harries collaborated with you in the preparation of this brief: The Industrial Location in Alberta and the Present Rate Structure?

A. Yes.

Q. Now, will you please proceed to put in the record the portion of that, that you are particularly concerned with?

THE CHAIRMAN: Do you intend to read this brief?

MR. FRAWLEY: No, it is not a matter of reading the brief. Professor Stewart has a summary and we are going to try to cut down the actual reading of the brief as much as possible, consistent with an adequate presentation.

THE CHAIRMAN: All right.

MR. FRAWLEY: Q. Very well, Mr. Stewart?

A. Mr. Chairman and Commissioners; This brief is divided into four parts. In part 1 we are dealing generally with the factors affecting the location of industrial plants and our object is to establish the importance of transfer costs.

THE CHAIRMAN: You have to speak up, Professor Stewart. We have very bad acoustics here, you know. Go on.

THE WITNESS: Yes, sir.

In Part 2 we refer to particular products in order to illustrate certain features of a rate determination and of the existing freight rate structure which we believe affect the profitability of manufacturing activity in the Province of Alberta. That is in Part 2.

In Part 3 we discuss the principles and practice of rate regulation with relation to industrial location.

And Part 4 contains our conclusions and recommendations.

With your permission, sir, I will deal with the matters contained in Part 1 of the brief.

This brief extends the arguments contained in earlier representations to the Commission at Edmonton. In these submissions we contended that the fundamental weakness of the prairie economy and of the governmental units within that region was very excessive dependence upon primary industries, particularly the industry of agriculture. We stressed that the Province of Alberta has, along with its agriculture, other natural resources capable of substantial development.

We submitted that that development was consistent with the welfare of the country as a whole, but that the maximum advantage would be obtained if impediments to the processing of these raw materials close to the point of production could be eliminated.

Mr. Chairman, we are looking 20, 30, years ahead, over the period of time that we feel your Commission is going to point the direction of things. In that period we look forward to an expansion of trade with the United States based upon the raw materials, and the natural resources which Canada and the Province of Alberta possess.

We believe that that will come about because, in building up its present wealth and in the tremendous effort which they made during the last war, the United States has very substantially depleted its own natural resources, and the natural resources of Canada and of the Province of Alberta, have therefore acquired a new significance to the United States.

Now, we believe that if this development is to come about advantageously to ourselves and to the United States, then modifications of the United States tariff regulations will have to be made, so as to give to Canada a fair break and an equal opportunity to manufacture these raw materials in Canada rather than to have them manufactured in the United States.

We are concerned for example, in Alberta, with regard to our natural gas. It is my own personal opinion from some knowledge of the situation, that in due course we will have sufficient gas to serve the markets of the Western United States.

MR. FRAWLEY: Q. May I interrupt you? I understand that you recently served on a Royal Commission appointed by the provincial government to investigate the natural gas resources of Alberta?

A. That is correct.

Q. Very well.

A. If, however, we are going to be prepared to supply our raw materials, commodities like natural gas, for the service of the people of the United States, we feel very strongly that we should have a fair opportunity to manufacture whatever products may be manufactured from a material such as natural gas for the United States market, and that we should have access to a market on that basis.

THE CHAIRMAN: Q. You mean to say that you should manufacture the finished product in Alberta?

A. In Alberta, that we should have a chance to do that.

What we are concerned about, Mr.Chairman, is that under present tariff regulations which generally,

so far as the United States are concerned, permit reasonably free entry of raw materials, but do put substantial impediments in the way of the importation of manufactured products--that what you would see happening if we permitted our gas to be piped to the United States, as we visualize the import duties on processed products, we would find a few miles across the boundary in the United States these chemical plants established to process raw material at the cheapest point to the importer.

Q. What is the use of the gas itself?

A. Gas has two general uses, sir. One as fuel, -- it is a source of heat. And secondly, to an increasing extent, as a raw material in the chemical industries.

Now, Mr. Chairman, I submit that if we approach, as I feel we should be doing, if we approach the United States on that basis with regard to this potential expansion of trade with them, that it would be utterly absurd for us at the same time to have within our freight rate structure, relations between rates on raw materials and on processed products, conducive to the movement of the raw materials out of the province, rather than the movement of the finished product.

THE CHAIRMAN: Q. Pardon me, do you mean rates so low that they would make the transportation beyond the province easy? Is that what you mean?

A. No, sir, I am referring to the relative rates on raw material, and on the processed product, and on the relationship between these.

COMMISSIONER ANGUS: Are you speaking of raw materials in general, or of natural gas?

... of the ... are concerned, ... simply free entry of new materials. But ... subsequent ... improvements in the way of the ... of manufactured products that what you would ... if we permitted ... to be ... we ... the ... in ... [illegible]

... industry in the United States those chemicals ... [illegible]

... What is the use of ... itself?

... has two general uses, sir. One as ... it ... and secondly, to ... [illegible]

... I ... that ... [illegible]

... if we ... with ... that it ... the ... [illegible]

... now ... [illegible]

A. I am now speaking of raw material in general.

THE CHAIRMAN: Q. What other raw materials have you in mind, then? You raise this gas question, you see.

A. Yes, sir.

Q. Which is a concrete subject, one which is attracting much attention today. You say if the transportation rates of gas, for instance, or other raw materials, were lower than those on the finished product which might be made in Alberta, it would encourage the transportation outof Alberta into the United States, of theraw material, is that what your idea is?

A. Yes, sir. Now, I recognize that natural gas will be transported by pipeline.

Q. Yes?

A. We might, for example --

Q. Still the transportation would be paid for?

A. Yes, sir.

Q. Some way?

A. Yes, sir.

COMMISSIONER ANGUS: Q. But do you mean that it would be difficult to approach the United States on this question of admitting the manufactured product on favourable terms, if at the same time you were, shall we say, encouraging the export of other natural materials from Alberta to other points in Canada?

A. No, sir. No, I feel that it would be utterly illogical to say to the United States that we wish tariff adjustments which will favour and give -- at least give us a fair chance to manufacture our raw materials --

THE CHAIRMAN: Q. And export them to the United States?

A. And export them to the United States. And at the same time not do something about relative rates in so far as they are conducive to the movement of the raw material, rather than the finished product.

I am quite prepared to admit that the United States might be more ready to adjust their tariffs if we still had rates on the raw materials which would encourage the movement of them to the United States, but I consider that would be a very illogical position for us to take.

Now, sir, when I present that proposition to people, that is with regard to our relationships with the United States, I feel that it is generally an acceptable proposition. Some people seem to see sense in that.

Q. You mean people in Canada, do you?

A. Yes, sir. And I believe in Washington.

COMMISSIONER ANGUS: Q. But my difficulty is this: I am not always clear when you say "We" whether you mean Alberta or Canada?

A. I don't want to differentiate any more than I have to, sir.

Q. No, but is the movement in Canada an exportation from Alberta?

A. No, not as I am using the term at the moment. But what I want to point out is that on the shift from the north-south movement to the east-west movement I find that is not the least acceptable proposition for some other reason, in fact it seem reprehensible, and I cannot understand that.

THE CHAIRMAN: Q. Had you not better for the moment deal

[illegible] the United States [illegible]

[illegible] the finished product [illegible] admit that [illegible] ready to adjust their [illegible] raw materials which [illegible] the movement of them to the [illegible], but I consider that would be a very ill [illegible]

[illegible]

with the United States [illegible] that it is [illegible] month [illegible] in secondary [illegible]

[illegible] in Canada, [illegible]

[illegible]

COMMITTEE [illegible]. But my difficulty [illegible] I am not always [illegible]

[illegible] now [illegible]

[illegible]

with this export to the United State beginning with gas?

A1. Well, sir, I wish to make the point, if I may, that we are thinking not only of the east-west movement but we are still thinking ---

Q. You are thinking of the north-south one?

A. Of the potential.

Q. You are thinking of exporting to the United States?

A. Yes.

Q. And your desire to export to the United States a finished product rather than a raw material?

A. Yes sir.

Q. That is right, is it not?

A. Now, I have presented my position on that point, sir.

Q. Yes. Now, you say that would require bargaining, I might put it that way, between Canada and the United States in regard to customs tariffs?

A. Yes sir.

Q. And you would require that that United States customs tariff accomodate itself to the importation into that country of the product finished in Alberta, is that not so?

A. Yes sir.

Q. Rather than to the raw material from Alberta?

A. Yes sir.

Q. You see, of course, that is in the hands of somebody else, in the United States authorities. They of course will have regard to their interest.

A. Yes sir, I realize that. But I would wish to point out - -

with [illegible]

[illegible]

A. [illegible]

now, that we are thinking not only of the north-west movement but we are also thinking ...

Q. You are thinking of the north-south one?

A. Of the potential.

Q. You are thinking of exporting to the United States?

A. Yes.

Q. And your desire to export to the United States [illegible]

A. [illegible]

Q. That is [illegible] point?

A. Now, I have presented my position on that point, sir.

Q. Yes. Now, you say that would require bargaining, [illegible] and the United States in regard to customs tariffs?

A. Yes.

Q. [illegible] customs tariff arrangement itself to the importing into that country of the commodity [illegible] is that right?

A. Yes, sir.

Q. [illegible] the new material from Alberta

A. Yes, sir.

Q. [illegible], that is in the [illegible] of

[illegible]

They of course will have regard to their interest.

A. Yes, [illegible] I realize that. But I would [illegible]

[illegible]

Q. Tell us, then, how you think thattransportation might come to your aid in insuring an exportation, helping to insure an exportation to the United States of the finished product rather than the raw material?

A. That, sir, is the whole argument of this brief, the relation of rates on raw materials to rates on finished products.

Q. Yes?

A. Which is at least passive with regard to these two types of commodities and will give us what I am calling an equal break, a fair break in manufacturing and getting the manufactured product to the market.

Q. I think it would be very useful in the beginning if you adhered as much as possible to this north-south traffic which you have in mind getting into the United States.

A. Sir, I would like - -

Q. You would rather mix them up, would you?

A. It seems to me there is no difference between the north-south situation and the east-west, but I would like the Commission in the discussion, the consideration of our Brief, to consider it in the context of both the north-south movement and the east-west movement.

Q. Yes. Well, of course we will have to do that in the long run. I thought perhaps you could divide it for the moment because there are certain commodities that you are desirous of making use of shipping south, is that not it?

A. Yes.

Q. [illegible] then, how you think [illegible] other might [illegible] you [illegible] Italy [illegible] [illegible] product [illegible] raw materials?

A. That [illegible]

[illegible] the relation [illegible] in finished product.

Q. Yes?

A. Which [illegible] with [illegible] those two [illegible] [illegible] what I am calling on [illegible] in manufac- [illegible] market.

A. I think [illegible] very [illegible] in the beginning if [illegible] such as [illegible] north-south traffic [illegible] the [illegible]

[illegible]

[illegible] function [illegible]

[illegible]

[illegible] that in [illegible] [illegible] tendency of moving [illegible] this [illegible]

Q. You just mentioned gas, there may be others. There are others?

A. Yes.

Q. Well, go on the way you want to.

A. The present distribution and concentration of manufacturing activity in Canada is, we submit, the result of historical development, conditions and policies, along with the geographic factors. At an earlier stage, the central provinces developed as the principal manufacturing centres of the country. One of the significant factors contributing to that delvelopment was the regional differences in prices of what we call the agents of production, the prices of labor, the prices of investment funds, that is to say, wage rates and interest rates. These regional differences reflected the relative supply of these agents of production in the different parts of the country. In the east, wage rates were low and interest rates were low. In the Prairie region, with its relatively abundant supply of land and natural resources, these things were relatively cheap. Low wages, low interest rates, were at that time important factors in expanding industrial development in the central provinces.

(Page 10635 follows)

[illegible]

[illegible] during [illegible] in Canada [illegible] result of historical development, [illegible] along with the geographic factors [illegible]

[illegible] the regional differences [illegible] when we call the agents of production, the prices of [illegible] the prices of investment funds, that is [illegible] differences reflected the relative supply of these agents of production in the different parts of the country. In the east, [illegible] rates were low. In the [illegible] region, [illegible] these things were probably [illegible] interest rates, [illegible] [illegible]

That development was accentuated during the war period. On pages 3 and 4 of the Brief we quote and provide some statistical data from the Report of the Department of Reconstruction, Ottawa, entitled "Location and Facts on Wartime Industrial Expansion in Canada"-I merely call your attention, sir, to the tables on page 4. In the one towards the top of the page which refers to the estimated net civilian migration, you will see that during the period June 2 1941, to April 1, 1944, the provinces of Nova Scotia, Ontario and British Columbia had a net in-migration and that the provinces of Alberta, Saskatchewan and Manitoba had a large efflux of population attributal to wartime conditions and the expansion of industrial plants and capacity under wartime conditions in the provinces of Ontario, in Nova Scotia, and in British Columbia. The subsequent table, I think, adds nothing, sir, to the points which are clear from the first table.

Following the war this accelerated industrial expansion in the Eastern Provinces has continued. On pages 5 and 6 we quote and provide statistical data from a Report of the Economic Research Branch, Department of Trade and Commerce, the title of which is "Investment and Inflation with Special Reference to the Immediate Post-War Period Canada 1945 to 1948". I would refer you to the table on this page. This table shows the investment and industrial plants by regions and it is possible from the table then to compare the rate of expansion between the years 1945 and 1948. The quotation immediately below the table summarizes the general evidence of the first six columns of the table. May I read that:

> "Ontario alone is responsible for close to half of the investments in Canada. British Columbia and the Maritimes have increased

capital expenditures most rapidly since 1945. The indication is that these provinces are currently spending almost five times as much as they spent three years ago. Ontario and Quebec are each spending about four times as much and the Prairie Provinces about three times".

I think perhaps it is interesting to look at the last column of that table which shows the increase in investment in the City of Toronto alone. You will see that in 1948 the investment in Toronto was $75.8 millions which is practically the same as the total investment in the three Prairie Provinces together, which can be seen from the 1948 figure of $75 million under the heading of "Prairies".

THE CHAIRMAN: How do you account for the difference between Montreal and Toronto between 1947 and 1948. There is a change in Toronto from 58.2 to 75.8 whereas in Montreal there is a decline of 1.4 .. Can you tell us anything about that?

A. I am afraid I cannot, sir. I do not remember whether the report deals with that point. I am sorry I cannot give you that explanation.

Our point here Mr. Chairman, is that this trend towards increasing concentration of industry, manufacturing in the Eastern Provinces in continuing. Now, we go on to point out that the factor of differences in wage rates, interest rates, and other agent prices which in the early period was undoubtedly a significant factor in contributing to industrial concentration in the east, that that factor no longer obtains. That is, we attempted to establish by such information as we have been able to bring

together for this purpose that there is today no substantial difference between wage rates in the East and in the West and between interest rates in the East and the West although at an earlier time these differentials did in fact occur.

Q. What about the Eastern Provinces among themselves? The Maritimes as compared to Quebec and Quebec as compared to Ontario -- can you give us any information about that?

A. All I can say, for example, is that wage rates generally in Quebec are lower than the other provinces are.

Q. Lower than the Maritimes?

A. It would be more or less of a guess if I answered that question, Mr. Chairman.

Q. Certainly lower than Ontario?

A. Yes sir. I might point out that in our comparisons we have taken Alberta and Ontario, but I submit that that is -

Q. What do you find as between Alberta and Ontario?

A. No significant difference. There may be minor differences here and there but the Alberta wages are higher than they are in Ontario for comparable workers, depending on local conditions and the particular demand for that particular class of worker. In other cases the reverse relationship holds.

Q. And in former years, some time ago, the rate was higher in Ontario than in Alberta?

A. No sir, the other way around.

Q. I thought you said it was higher in the East?

A. Higher in Alberta and the Prairies generally than in the East. Skilled workers were scarce in the Western Provinces in the early days. With the larger population and already-established bases of industry in the East they were

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more plentiful and these conditions were reflected in relative wage rates.

I feel it is unnecessary to go over in detail the evidence we submit on this point between pages 8 and 15 of the Brief. On page 8 we compare, with such information as we can bring together, interest rates, and we see that the principle of equalization is apparently working in the area of interest rates.

Q. What is the trend there? What is the comparative position between East and West?

A. Well sir, take for example mortgage rates as a particular type of rate. Mortgage rates in the West were very much higher than they were in Eastern Canada in the earlier days. That is apparent in the table on page 9 in the column headed "1919". You will see the substantial differential with higher rates in Alberta than in Ontario in 1919. Over the passage of the years that differential has been substantially eliminated. They are still slightly higher in Alberta in general than they are in the east, but certainly the differential has greatly narrowed over that period of time. I think it would be true if we investigated other types of interest rates that we would find the same general trend of narrowing of the differences.

Q. Do you deal with bank rates at all?

A. Just sir, with the rate on Dominion of Canada Bonds.

Q. That is a different thing. I am talking of bank rates. Do you deal with bank rates in the West and in the East?

A. No sir.

COMMISSIONER INNIS: There is general uniformity though, isn't there?

A. I don't know of any difference at all. I believe that that is a uniform rate.

THE CHAIRMAN: Well, I am told that any difference that did exist has now disappeared.

A. That is generally what we suggest has been happening. Now, pages 11, 12 and 13 of the Brief refer to wage rates and while the information is not complete on this point, it is what we have been able to bring together and it does seem to bear out the general contention as we summarize it on page 13, and perhaps I might read that:

> "The apparent elimination of significant regional wage differentials may be attributed to two factors. During the war we had ceilings applied except in the case of relatively low rates. The raising of the latter reduced wage differences generally. The second factor, and undoubtedly the main one, is the increased organization of workers, the growth of national industrial labor organizations, the application of the principle of equal pay for equal work and the establishment of wages through collective bargaining."

These two conditions, particularly the latter, have contributed to the elimination of regional wage differences.

If then, sir, these differences in wages and interest rates which were major factors in the earlier years in establishing a concentration in industry im the east, if these differences no longer exist, how then can we explain the continued trend towards concentration in the Eastern Provinces established by the evidence in the Reports of the

Department of Reconstruction and the Department of Trade and Commerce? We suggest that the persistence of a concentration outside of the Prairie region can be related to three reasons: first, the imperfect competition in industry today -

Q. Imperfect competition?

A. Yes sir, in the earlier years there was more nearly what we call perfect competition in industry than there is today. The tendency has been towards an increasing degree of improper competition in industry. I am not using the term "monopoly" there but increased monopolistic elements at least in industry.

Q. Now then, do you mean within one industry, an industry producing a certain product?

A. In particular industries and therefore in industry generally.

Q. Well, do you mean that there used to be greater competition among industries engaged in producing the same product formerly than there is now?

A. Yes sir. Today, instead of having a large number of small producing units we are tending towards a condition of large scale production with a smaller number of producing units which limits the degree of competition within the industry. It changes its character.

Q. Can you give us some examples of industries that have come under that dev lopement?

A. Yes sir, the blacksmith and the local maker of farm machinery does not exist today. Today we have a few large firms producing agricultural implements. The situation was completely different from the point of view of competition within the industry. Instead of the passive and impersonal

competition of a lot of little people, we have the active and aggressive competition of a few large businesses.

Q. You mean aggressive competition among themselves?

A. Among themselves.

Q. I thought you said there was a lessening of that competition in large businesses?

A. The character of the competition has changed. When we speak of a competitive industry and competitive conditions, sir, we think of something along the lines of the wheat producer. There are hundreds of them; no one of them produces a sufficient amount of wheat that what he does with his wheat has any bearing on the price which he can get unless he organizes and forms a central selling agency. But in an industry where you have got three or four large producers, then that one producer -

Q. Well, what would you say would correspond to that?

A. The farm machinery industry today, sir.

Q. You have three of four industries producing the same implements?

A. They are within the same industry but it is true that their products are distinguished by buyers. They are not identical products.

Q. Now, do they compete more among themselves than the competition that used to exist formerly, when there were a number of small makers of these implements?

A. In one sense, sir, they do, because it is very difficult to say that Farmer Jones in Alberta competes as a wheat producer.

Q. I know he is no longer an industrialist but at the very beginning of your present remarks you said there is less competition now among manufacturers than there used to be formerly. Isn't that so?

A. Yes sir.

Q. You said you did not want to go so far as to say that there was a monopoly but that there was less competition than formerly among large manufacturers. The smaller ones have gone and the larger ones have grown and among them, you said, there was less competition now than formerly. You adhere to that, do you?

A. Yes, I would like to explain what I meant by that.

Q. I asked you then to name me some industries which came within what you were describing, and you mentioned farm implements, but then you told me that the different farm implement manufacturers manufactured different kinds of implements. That in itself would lessen competition?

A. It changes the character of competition, sir, it is a different sort of competition altogether. Perhaps that is a better way to put it than to say there is less competition.

COMMISSIONER INNIS: Would flour milling be a good illustration?

A. Flour milling would be a good illustration, because in that case the commodity is pretty well standardized.

THE CHAIRMAN: What is the difference in that industry between now and years ago?

A. Well, much the same as what has occurred in the farm machinery industry. I think it is still true that there are quite a large number of small mills in the flour milling industry, but, nevertheless, the industry is dominated by a small number of large producing units.

Q. And among those large producing mills is there competition?

A. Of a kind, yes.

Q. But do you say that there is less than formerly?

A. In my sense of the term, yes, because it is a different kind of competition. Perhaps I could put it this way; We had what we called a competitive situation in the flour milling industry in the early days when there were a lot of small mills producing and no very large business organizations in the industry. Now, that is what we think of as a competitive situation - a lot of little people producing small amounts, none of them being able to exercise much influence upon the price which they get for their products. Now, as you get away from that condition, in my sense of the term, you are then getting less competition and of a different type. When you get a small number of large producing units you get an active, aggressive type of competition which does not exist in the other case.

COMMISSIONER INNIS: You mean the sort described in Mr. McGregor's Report?

A. Yes sir.

THE CHAIRMAN: All I had in mind was that we must eventually bring all this back to transportation?

A. Oh yes sir. I was going to say, sir, that having stated that as one of the reasons why we think the trend to increasing concentration is still evident in the east, of industry, that we realize that the Commission is/not concerned with the changed structure of Canadian industry and therefore, we have nothing more to say about that point. But we do suggest that that is one of the reasons why industry continues to tend to be concentrated in the eastern provinces.

(Page 10645 follows)

The second reason is what we call economics and scale. We recognize that in a situation where you have a larger consumer market because of an already established concentration of population, it may be possible to establish larger units of production to effect certain economics in production because of size, to get down unit costs of production under these conditions. We agree that general benefits follow from these economics and from concentrating production in places where these economics can be achieved. So that we have no complaint so far as that particular point is concerned. Our main emphasis is on the third point; that is, on the whole matter of transfer costs. I think it is unnecessary, sir, to worry you with the reading of the material in this section of the report. It can be reduced to three points which we want to emphasize with regard to transfer costs and freight rates as they affect these transfer costs.

Your lordship and members of the Commission, you will find the material on transfer cost on page 16 going through to page 19.

Q. You are going to summarize that?

A. Yes, sir; the point is we recognize that general high freight rates through their effect on transfer costs are impediments to exchange. High rates would tend to stimulate local small-scale industries. High rates would protect much in the same way as high tariffs protect a local small industry.

THE CHAIRMAN: Q. You are speaking theoretically? Do you say that high tariffs have protected small local industries?

A. High tariffs protect small local industries.

Q. You are talking about transportation problems?

A. No, I was comparing the high transportation rates with high tariff rates to indicate what they might do.

Q. You say that high tariffs protect small industry?

A. They would generally in that way.

Q. The general trend is to big industry much more than small industries?

A. Yes.

Q. How do you reconcile that?

A. I think the trend toward large scale industry is due to technological development in industry. It may have been due to relatively low rates.

Q. Transportation rates

A. Yes. But we do not want to go against the advantages of technological change and improvement by concentrating industry across the country on the basis of high transfer rates.

MR. FRAWLEY: Q. In speaking of high transportation rates, do you mean high in relation to other prices and other costs?

A. All prices are relative, I think, and I mean in the relative sense. I did wish to make the point that we do not want to use the freight rate structure to protect local industry in Alberta and to develop industry in Alberta on that basis.

THE CHAIRMAN: Q. That is, you do not want rates made high for that purpose?

A. No, sir.

MR. FRAWLEY: Q. You just told us that high rates encourage local industry?

A. We do not want that kind of protection. My second point here is that we want to emphasize with regard to transfer costs is that transfer costs - freight rates

through their effect on the profitability of production in particular places affect property values. When rates have been established for a period of time, so far as they are concerned at least, they tend to affect property values in particular places. Business firms then come to have vested interest in existing rates and in the relation between rates. Changes in rates will disturb property values. We recognize that but our belief is that the protection of existing property values should not prevent a permanent and insupportable obstacle to changes which are clear in the general effect.

COMMISSIONER INNIS: Q. Do low rates increase property values?

A. Protection of property values should not prevent changes which are generally beneficial.

Q. There is a difference in changes?

A. They lower property values and raise property values and a change in rates will tend to lower property values in some places and increase them in others. We admit that is the problem.

THE CHAIRMAN: Q. Does that pertain to all changes whether they are upward or downward?

A. Yes; property values do take time to become adjusted to conditions, but I think as to adjustment if things become more profitable real estate becomes more valuable. Technological changes may destroy that value. Changes of localization may destroy that value. We simply say that to refuse to make changes which are generally beneficial on the ground that they disturb existing property values is not, in our opinion, an adequate and proper position to take.

COMMISSIONER INNIS: Q. No matter how serious they are?

A. In the final analysis, no, but there may be questions of the move by which a change is made.

Q. You would not want to introduce a horizontal increase of thirty per cent ?

A. That is a question of methods and that is exactly on the point we complain of, application and method.

THE COMMISSIONER: Q. Then you do complain about a horizontal increase in freight rates?

A. As I remember, that was our position at the time.

Q. You do not favour horizontal increases?

A. In rates; no.

MR. FRAWLEY: May I say, my lord, there will be another complainant who will deal with that?

THE WITNESS: The third point here, sir, is that the relation between the rates on raw materials and the rates on their finished products can have a very significant effect on the location of the manufacturing processes. I repeat that in Alberta we believe that we have raw materials which can be further developed and we believe that it is in the interest of the province and the general interest of the country as a whole that these processes of manufacturing our raw materials should occur at the point of supply of material; that is, within the province itself. Secondly, we are particularly interested then in the relation between raw material and finished products rates, and in attempting to insure that the rate relationship established in the freight rate structure does not arbitrarily and

unjustifiably mitigate the manufacture of the product at the point of supply of raw materials. That covers the point in which we deal with this point in Part I of this Brief. Before I conclude might I just state our position and indicate our proposal with regard to relative rates on raw materials and finished products? Our position rests on three points; first, we submit that the effect of relative rates on industrial location is significant and is proper consideration in establishing freight rates. Second, we feel that the importance of relative rates on industrial location and the principle of adjusting rates so as to affect location is already recognized in the Canadian freight rate structure. We suggest that there is no other substantial reason for the milling in transit privileges. The third point is - -

THE CHAIRMAN: Q. Where is the milling in transit privilege to be found; is it in the Railway Act?

A. I am afraid I cannot answer that.

MR. EVANS: It is a tariff arrangement in the railway tariffs.

THE CHAIRMAN: It arises out of the Railway Act?

MR. EVANS: Yes, the tariffs are filed under the Railway Act. I won't say it is a regulation. It is part of the tariff structure put in by the railway.

THE CHAIRMAN: With the approval of the Board?

MR. EVANS: With the approval of the Board in many cases.

THE CHAIRMAN: Q. What have you to say about this milling in transit?

A. We merely, on this point, use it to illustrate the point that there is already recognition in the freight rate structure of the importance of relative rates on the

location of industry because we believe that ---

Q. Tell us how the milling-in-transit provisions operate?

A. As I understand them, although I am no authority on rates, but as I understand it, it is possible to move Alberta wheat eastward to some point, say Regina, that wheat being then milled into flour and to send the flour on through at the grain rate tapering beyond Regina. You are, in fact, sending flour through on the grain rate.

Q. You are sending on the finished product as though it were grain?

A. Yes, my lord.

COMMISSIONER ANGUS:
Q. When was this introduced?

A. I am afraid I cannot tell you.

MR. FRAWLEY: The milling-in-transit privilege is being dealt with in the second part of the brief by Mr. Harries.

THE CHAIRMAN: Q. Supposing the wheat does not come through from Alberta; supposing that it is local wheat and does not travel by rail as grain and it is made into flour and it goes on east, what rate does it travel on?

A. I believe it goes on the flour and grain rate from Moosejaw.

Q. Does it go on as if it were wheat or does it go on as flour?

MR. EVANS: I think we can clear this up right now. As you recall, the "Crow's Nest Pass" rates apply to both grain and flour, and they also were made to apply by the railways for reasons you will hear about in due course to process other products in the milling process, so it is the same rate whether it originates as grain or as flour.

(Page 10660 follows)

THE CHAIRMAN: Well, then, yes, the wheat that comes from Alberta to the mill in Saskatchewan pays a certain rate after it is made up into flour - it still goes on, I mean.

MR. EVANS: Yes.

THE CHAIRMAN: Under the Crow's Nest rates as flour.

MR. EVANS: That is right, sir. There may be a difference in weight going out from the mill to that coming in in the form of wheat.

THE CHAIRMAN: Yes, there would be.

MR. EVANS: And there is also the so-called in transit charge, which is a very small charge of a cent and a quarter or something, which is made for the privilege of stopping at the transit point.

THE CHAIRMAN: Yes, but the point that I had in mind is this: There is no difference, is there, in the wheat which is not yet flour, and the flour made out of the wheat? It is not transferred at a lower rate at Moose Jaw, where as you know there is a big mill.

MR. EVANS: No.

THE CHAIRMAN: Or flour made out of wheat which has come all the way from Alberta.

MR. EVANS: That is right.

THE CHAIRMAN: Once it is flour it goes on the same way, no matter where the wheat comes from. Yes, all right.

MR. FRAWLEY: Q. All right, continue.

A. If I might just repeat the first two points, because I think the third follows on the basis of that. We are suggesting the effect of relative rates on industrial location is the proper consideration in

THE CHAIRMAN: [illegible]

[illegible] rate after it is [illegible] up into flour [illegible] goes in, I mean.

[illegible]

THE CHAIRMAN: [illegible]

MR. EVANS: That is right [illegible] also in wheat [illegible] going [illegible] coming in in the form of wheat.

THE CHAIRMAN: [illegible], there would be.

MR. EVANS: [illegible] there is also the so-called [illegible]

[illegible]

THE CHAIRMAN: [illegible] this: [illegible] wheat [illegible]

[illegible]

[illegible] If I might [illegible]

[illegible]

establishing rates, that this importance has already been recognized, for example, in the milling in transit movement.

The third point however, is the application of this principle is left to the discretion of the railroads. We submit that the question of whether the principle can be applied or not is one which should be properly the responsibility of the regulatory body.

THE CHAIRMAN: Now, to the extent that the application of the principle is left to the railroads are we to hear from somebody else on this?

MR. FRAWLEY: Yes, Mr. Harries is going to go in and give you some particular examples of what happens, sir.

Q. All right.

A. Those are the three points that underlie our position. Our proposal then consists of three points. Also our proposal is, first, the recognition in the statute that relative rates should not dispose against producer location but rather that they should be passive in their effect on location, or if anything weighted in the direction of encouraging producer location.

Second, that the regulatory bodies should hear complaints where it is alleged that rates controvert this principle. And where such contention is substantiated that the board should adjust rates in conformity with the principle.

THE CHAIRMAN: Q. Well, your real principle is that you want neutrality in rates, is it not?

A. Yes sir.

[illegible] any event.

The third point however, is the [illegible]

[illegible]

[illegible]

[illegible]

[illegible] responsibility of the regulatory body.

THE CHAIRMAN: Now, to the extent that the application of the principle is left to the railroad, are we to hear from somebody else on this?

MR. FRAWLEY: Yes, Mr. Herries is going to go in and give you some particular examples of what happens, sir.

Q. All right.

A. Those are the three points that actually [illegible]

[illegible]

[illegible]

in the statute that relates [illegible] should not discriminate against producer [illegible] but rather that they should be exactly [illegible] on location, or [illegible]

[illegible] conditions.

[illegible]

[illegible] where it is not [illegible] convert the amount [illegible] substituted [illegible] in conformity [illegible]

[illegible]

is that you want uniformity in rates, is it not?

Q. But if they depart from neutrality they should go in your direction, not against you.

MR. FRAWLEY: That is right.

THE WITNESS: Yes sir.

THE CHAIRMAN: Well, that is fair enough.

MR. FRAWLEY: That is fair enough. We think so sir.

THE WITNESS: We tried to be perfectly straight forward in this. We believe it is to the advantage of everybody if the raw material producing areas can process more of their raw materials at the source. Our whole proposition is based on that.

The third point is - - -

THE CHAIRMAN: Yes, to give us an object, you had, as you mentioned gas in the beginning, and gas you say serves as a raw material for certain chemical products.

A. Yes sir.

Q. And you would like to see those chemical products manufactured in Alberta where the gas is.

A. Yes, sir. We don't want anything in the freight rate structure itself which is an impediment to that.

Q. Yes, that is it.

A. We are not asking that the freight rate structure should offset other things which might take the raw materials out of the province, but merely within the structure there is nothing which is an impediment to that.

COMMISSIONER ANGUS: To go to that example for a moment, if the gas goes out by pipe line, the pipe

Q. But if [illegible] from [illegible] they should [illegible] in your direction, not against [illegible].

[illegible]

THE CHAIRMAN: [illegible] that is [illegible]

MR. [illegible]: That is fair enough. [illegible]

THE WITNESS: [illegible] in this. [illegible] of everybody if the raw material producing areas [illegible] more of the [illegible] materials at the sour[illegible]

The third point is [illegible]

[illegible] you say serves as raw material for certain chemical [illegible].

[illegible]

Q. And you would [illegible]

A. Yes, [illegible] which [illegible]

[illegible]

Q. [illegible]

[illegible]

THE [illegible]. [illegible]

line rate would have to be related to the resale price of the products manufactured from it.

A. I think our position there would be that if the potential manufacturer or an actual manufacturer felt that the rate relationships pipelinewise on the raw material and railroadwise on the finished product were conducive to the movement of the gas rather than of the finished product, (a) he is entitled to take that to the Board as a legitimate request that they investigate that in the light of this principle, and then if they find that that is so, that within the practical limits of adjusting rates they will take that into account and make the adjustment so as to make the two neutral.

And our third point here is that in making the adjustments the Board should be guided by a consideration of the established rates on raw materials, similar raw materials, and the established rates on finished products. That is the substance of our submission.

MR. FRAWLEY: That concludes Professor Stewart's views at this time and I would like to now bring Mr. Harries on and then cross-examination can continue.

COMMISSIONER INNIS: We will get some information as to the method by which this is to be done? You are discussing some extremely complicated problems

MR. FRAWLEY: I don't quite understand.

COMMISSIONER INNIS: Do we come in the later brief to some information as to how this is to be done?

MR. FRAWLEY: We come now to some particular examples of the rates which we say conduce the consumer production, and we are against that, and we will show some that are passive and then some that conduce the producer location. We endeavour to discuss the thing

as thoroughly as we can by way of example.

COMMISSIONER INNIS: I think the province of the Board in being asked to decide in certain things, you will give us some indication --

MR. FRAWLEY: Yes, I think that discussion can well be had in the light of the examples we will show to the Board then. Thank you very much, Professor.

HU HARRIES CALLED

MR. FRAWLEY: Mr. Harries appeared briefly before the Board or the Commission at the Calgary sittings. But before he begins his evidence this morning I would just like to put his qualifications into the record.

EXAMINED BY MR. FRAWLEY

Q. Mr. Harries, you are a native of Alberta?

A. Yes, sir.

Q. You graduated from the University of Alberta in 1945?

A. Yes, sir.

Q. You then went to Iowa State College where you were in 1946?

A. That is right.

Q. And you took from that institution a degree of Master of Science in Agricultural Economics?

A. Yes.

Q. You then went to the University of Toronto where you took an M.A. in 1947 in Economics?

A. Yes, sir.

Q. In April, 1947, you were retained by the Government of Alberta to work on the preparation and presentation of Alberta's freight rate grievances to the Royal Commission which at that time was expected.

A. Yes, that is correct, sir.

Q. At least had been requested and expected.

THE CHAIRMAN: You are talking of this Royal Commission?

MR. FRAWLEY: I am talking of this very Royal Commission, sir.

Q. Now, Mr. Harries, you have collaborated in the preparation of this brief on Industrial Location and will you now please proceed to put into the record the brief beginning at page 20, Part II.

THE CHAIRMAN: That is Brief No. 2, is it?

MR. FRAWLEY: No, that is the same brief, sir, just the second part of this brief.

THE CHAIRMAN: Page 19?

MR. FRAWLEY: Page 20, sir.

THE WITNESS: In this section of the brief we deal specifically with the role of transfer costs as those costs affect the location of industry. And in general we can distinguish two broad subdivisions of the matter. First of all, the relationship between the transportation rates on the raw materials and the rates that apply on the products of those raw materials. And (b) the matter of transportation charges which apply on the same products from different production areas. And for convenience sake we have termed those market rates.

Dealing first with the raw material and the finished product rates. The relative transfer costs on raw materials and processed products will, in specific situations, tend to do one of the following:

(a) they will encourage consumer location, and by consumer location we mean that the plant which processes the raw material will be located at or very near to the centre at which those products will be consumed.

Then, the second type of location is producer location and when we speak about producer location we mean that the plant which processes the raw materials is located at the source of those raw materials, as opposed to the first instance, when we had it located at the source of consumption. Always there is some difference distantwise between the point of production and the point of consumption.

And the third situation that we envisage is the case in which rates play a neutral role in location. That is, the plant could be located at the producing point, at the consuming point, or indeed at any point in between those two. And those are the three situations which could arise in dealing with the matter of raw material and finished product rates.

THE CHAIRMAN: Q. In the third case you put, the rates would have no influence on the location?

A. Yes, sir.

COMMISSIONER INNIS: Q. That would be a very rare case?

A. Yes, sir. The milling in transit privilege is one of the few which we have to indicate that situation.

Now, the examples of rate relations which do one or other of these three things may be found by referring to the particular industries which are established in Alberta.

The first industry that we deal with is the meat packing industry, and here we find an example of consumer location. And then we deal with that starting at page 20. And then starting at page 30 we deal with the second classification, that is the producer location, and that is the sugar beet example. And then at page 32 we deal with the case where the rates are neutral and there we discuss very briefly the milling in transit proposition.

Now, just from the length of the number of pages devoted to each of these subjects you will see that the meat livestock relationship occupies a good deal more of our attention than

does either of the others, and the reason for this is that we felt to make the example clear it had to be backed not only by rate relationships and the way they affect the industry, but also by some statistical analysis to indicate that in fact this was what was happening in the industry. And for that reason we have gone into it rather more fully.

One thing I would like to explain right now is that we are not coming before this Commission and asking , for any adjustment of the meat rate or of the livestock rate or of both of them. We use this simply as an example,and what we do ask for in the nature of a recommendation is that rates be made neutral or passive when that is possible. And we say that in the meat livestock illustration that does not happen now. And I would presume if this Commission sees fit to make a recommendation, somewhere along the line we suggest that anyone who may be interested -- and it may be Gainers, who have already talked on this question at Edmonton -- would go before the Board of Transport Commissioners and it is there that they would make their application to have the particular rates changed. And I thought I would make that explanation, because there seems to be some misunderstanding about it. So as far as we are concerned in a discussion of the particular rates, we only discuss particular rates to illustrate our general proposition.

THE CHAIRMAN: Q. Would those who would apply, you say, to the Board to change a particular rate, have in mind that the rate which they object to operates against local manufacture?

A. Yes, sir. They would have in mind that they have the raw material there and the raw material is going out and because of the freight rates or at least as far as the application is concerned,it would be because of the freight rates, they didn't get an opportunity to process it.

Q. You are talking now of the livestock and meat?

A. Yes,sir.

Q. I thought you did quite a lot of your manufacture of that raw material right in Alberta?

A. Well, sir, the figures that follow here indicate very roughly the percentages on each of the classes of livestock that were handled and so on. If I might turn to that, sir, on page--- the next page --

MR. FRAWLEY: Dr. Angus had a question.

THE WITNESS: I am sorry.

COMMISSIONER ANGUS: Q. If I understand it, the protest could be in either direction, could it not? I mean,the producer of the raw material could say this rate is not just.

A. Yes,sir.

THE CHAIRMAN: Q. That is the thing we are talking about?

A. Yes,sir.

Table 1A on page 21 details the provincial marketings on cattle and calves, hogs, and sheep and lambs by alternate years from 1930 to 1948. These figures come from the Annual Market Review.

Comparisons with other statistics and a knowledge of the manner in which these statistics are collected,indicates that the figures for Alberta definitely underestimate the marketings. And this is a point which we suggest must be kept in mind in later stages of our submission.

But taking the figures for Alberta as they are, it is apparent that on the cattle and calves there has been something like a 300 per cent. increase in the volume of marketings in the last eighteen years.

With hogs the marketings in the last 18 years have doubled, but it should be noted that as compared with the average for these years the marketings in 1948 were at about par.

Looking at the Alberta marketings which are listed in the third column there,for hogs we see that in 1930 there were 629,000 hogs marketed in Alberta, and in 1948 there were 1,165,000.

THE CHAIRMAN: Q. When you say marketings in Alberta - that is what you suggest there - you mean marketed in the Province of Alberta?

A. No, sir, I am sorry, sir. It means marketed from farms located in Alberta, not necessarily through an Alberta agency.

Q. To all markets?

A. Yes, sir.

Q. Both inside and outside the province?

A. Yes, sir.

The marketings on sheep and lambs from Alberta during that period, 1930 to 1948, have also doubled.

THE CHAIRMAN: We will stop now until a quarter to Three.

At 1 P.M. the Commission adjourned to resume again at 2.45 P.M.

(Page 10675 follows)

AFTERNOON SESSION

. . . The Commission resumed at 2.45 p.m.

- - - - - - - - - -

MR. EVANS: Yesterday, sir, you asked me a question which I undertook to answer about the bonding of freight and - I do not want to interrupt my friend -

THE CHAIRMAN: You mean yesterday?

MR. EVANS: Yes, and if you want it now I will give it to you.

THE CHAIRMAN: Yes, I suppose we had better have it now while it is fresh.

MR. EVANS: The question was asked of me at page 10314 of the Transcript and the process of bonding of freight goes like this. Where the freight originates in the United States destined to points in Canada, if the destination is a customs port of entry, it may be shipped in bond or it will be shipped to the nearest port of entry short of the destination. Now, the shipper in the United States makes out an export declaration in triplicate. He lists the goods to be shipped and he gives the value for customs purposes. Now, the export declaration must accompany the shipment to the border.

THE CHAIRMAN: That is a United States export declaration?

MR. EVANS: Yes, when the shipment reaches the border, two copies of the export declaration are handed to the United States customs and one copy to the Canadian customs. At the border the railway company makes up a customs manifest giving the full particulars of the shipment of which one copy goes to the Canadian customs at the point of destination or the nearest point of entry to the destination.

In the case of carload traffic, the Canadian customs place their own seals on the car but this is not done in the case of less than carload traffic. Now then, on arrival at destination, if it is a customs port, the carload traffic is placed on a special track and held under customs and railroad seal until advice has been received from the Canadian customs that their requirements have been satisfied. The car is then released to the consignee.

Now, with regard to less than carload traffic, on arrival at destination or the nearest customs port it is unloaded into a special section of the railroad freight shed and it is there held under railroad supervision until advice is received from the customs, that is the Canadian customs, that their requirements have been satisfied.

Now, in the case of traffic shipped to destination which is not a port of entry, the goods are held at the nearest port of entry short of destination and advice is sent by the railway to the consignee that his goods are being held for customs clearance. The consignee then goes to the customs port and arranges for clearance or arranges for a customs broker to do that for him. Now then, the customs bond put up by the railway in the case of the Canadian Pacific, I am told, is for the amount of $80,000.

THE CHAIRMAN: That is a bond to the Canadian Government?

MR. EVANS: Yes, sir.

THE CHAIRMAN: Well, I don't think Mr. Hume is here but I think he was interested -

MR. FRAWLEY: I presume what would interest the Commission would be a similar statement to show the identity

or otherwise of the regulations respecting the entry by truck and I might ask Mr. Hume -

THE CHAIRMAN: Do you know whether truckers in that case get export certificates, or whatever they are called, from the United States customs authorities?

MR. FRAWLEY: No, my lord, I would not know.

THE CHAIRMAN: Isn't that the first step?

MR. FRAWLEY: I would suggest that there should be a statement as thorough as Mr. Evans' statement with respect to the situation by truck which is as complete as Mr. Evans has given it to us by rail, and I am sure that the Truckers Association could do that. As a matter of fact, if in the last analysis it cannot be done, I can have people like Burns and Company which do bring things in by truck and they would be able to tell us the precise story, but in any event it will be furnished to the Commission.

THE CHAIRMAN: Please then, do not overlook this. I think it is important to know whether goods by truck come accompanied by a United States export permit, or whatever you call it, because that keeps the goods in custody so long as they are in the United States. So do they just arrive at the boundary loose without any United States export documents?

MR. FRAWLEY: Very well, my lord,

- - - - - - -

MR. HU HARRIES RECALLED

Examination by Mr. Frawley continued

Q. Mr. Harries, I think you had reached Table 1A and you had given some comments. Perhaps you had completed

what you wanted to say with regard to Table 1A which shows provincial marketings for alternative years 1930 to 1948 in thousands?

A. Yes. There was one more point I wished to draw to the attention of the Commission in connection with this Table, and that was, if we compare the increases which have taken place in the Alberta marketings with the increases in the percentage terms that have taken place in the total Canadian marketing, we find that the Alberta increases are substantially above the total and just to have those figures on the record, the marketings of cattle and calves in Canada show an increase during this period of roughly 150%.

MR. EVANS: Is that percentage of marketing to processed or just percentage of total Canadian marketings?

A. This just indicates, sir, the percentage increase in marketings from 1930 through to 1948.

Q. Total marketings?

A. Those are the total figures, yes sir.

MR. FRAWLEY: The last column?

A. And hogs -

THE CHAIRMAN: Pardon me, this increase you have just given is in the volume of marketing?

MR. FRAWLEY: Just the volume of the marketing, yes sir, that is right.

THE WITNESS: Hogs show an increase in the total Canadian market of roughly 100%, sheep and lambs have increased roughly 50%.

COMMISSIONER INNIS: Is the fluctuation the same in your case as in that of Saskatchewan, for instance, cattle and hogs a pretty good increase and a sharp fluctuation in hogs and sheep?

A. In Alberta, sir?

Q. Yes.

A. Well, there has been a decline in the marketing in hogs since 1944 with the readjustment which took place in connection with the coarse grain prices and as far as the sheep and lambs in Alberta are concerned, they definitely have been decreasing and probably will continue to decrease because of the better prices that are being paid for cattle, and consequently, the range is used for cattle rather than sheep.

Q. Would the same conclusions be drawn from Saskatchewan or have you looked into their figures?

A. I would think so, sir, yes. Table 1B on page 22 indicates in percentage terms the provincial marketings during these same years, that is from 1930 to 1948. Just to look at Alberta's position for a moment in connection with cattle and calves, we see that in 1930 Alberta marketed roughly 15% of the total cattle and calf marketings in Canada. In 1948 they marketed 22.5%. This picture just gives in percentage terms the one that we previously gave in Table 1A in absolute terms.

MR. FRAWLEY: Are you going to call any particular attention to the Table for hogs and sheep and lambs?

A. No, sir, I would not unless it is the wish of the Commission. It is just in percentage terms.

Q. Then, we will pass from that Table and if you will continue then?

A. Looking now for a moment at Table 2 and 2A which give the slaughterings in each province in Canada and the percentage that these slaughterings are of provincial marketings (and those are to be found, the first one sir, on page 24) here we have the absolute

numbers of animals of these different types which are slaughtered in packinghouses and plants situated in the various provinces. Then, putting those in percentage terms, as we do on the next page (that is page 25) and expressing them as a percentage of the provincial marketings, we find that in Alberta, for instance, that cattle and calves in 1930 we were processing roughly 48% of our total marketings in that year. As we move forward by those alternate years, we find that by 1946 (and those were the latest figures which we had when we compiled this) that 61% of the total marketings of cattle and calves were processed within the boundaries of Alberta.

In general, then, we can say that 40% of the cattle and calves which are marketed from Alberta farms and slaughtered outside the provincial boundaries and remembering that, as we earlier indicated, the provincial marketings are, in our opinion, underestimated, we can see that the percentage might in some instances be greater than what we would claim it to be from a consideration of these particular statistics.

Then, we go through the hog situation, and we see that we processed in 1930 52 per cent. of our marketings and in 1946 we processed 74 per cent. With sheep and lambs in 1930 we processed 63 per cent. and in 1946 we processed 41 per cent.

THE CHAIRMAN: Do you say that that situation is undesirable?

A. We say, sir, that inasmuch as freight rates may be responsible for moving 40 per cent. of our cattle and calves out of the province for processing that that is undesirable.

Q. I was going to put it this way. Is that situation in itself undesirable, that such a large proportion of Alberta's stock should go away to be processed elsewhere?

A. In our opinion it is sir.

Q. And then, do you attribute that to the freight rate situation?

A. Yes sir.

Q. Wholly or partly?

A. We would say that it is the major factor. Well, to give you some idea of the magnitude I would say it is responsible for 75 per cent.

COMMISSIONER INNIS: You are quite certain that these figures for Alberta for slaughtering refer to production in Alberta? You are not drawing on Saskatchewan, for example?

A. No sir, the situation in Alberta is that we processed nearly - all our processings are Alberta livestock with the exception of a few head which will come in from thePeace River Block and British Columbia and in return for that, however, there is quite a substantial part of the eastern edge of the province lying west of Saskatoon and west of Moose Jaw from which none of the livestock moves back to our processing plants. It all gets forwarded into the Saskatchewan ones.

THE CHAIRMAN: Then, in this case the rate tariff is not neutral and operates against you?

A. Yes sir.

MR. FRAWLEY: Go on now with the table.

A. Considering this table, we think it is interesting to compare these Alberta percentages with

those for British Columbia. In connection with that comparison, we see that in 1946, considering for a moment cattle and calves, that British Columbia processed 226 per cent. of their total marketings. Manitoba had the same thing or roughly so; they processed 201 per cent. of their marketings, and then looking at the situation in connection with hogs we find that British Columbia processed 700 per cent. of their marketings. As a matter of actual fact, the processing which is done in British Columbia of hogs is primarily hogs that move from Alberta into British Columbia. They go out by the carload, in fact sometimes by the trainload out of the Edmonton district.

THE CHAIRMAN: Then, would an expansion of your statement mean that the best thing to happen would be that each province would process 100 per cent or as near 100 per cent. of its own products as possible because if it is good for Alberta, it is good for all the other provinces?

A. We would maintain, sir, that a province should have transportation-wise an equal opportunity with all other provinces in processing raw materials which originate in that province. That is the arrangement that Professor Stewart dealt with, that is/that the rather narrow basis which we have for industrialization would seem to indicate that we could very profitably protect that basis by processing raw materials which we originate. We are certainly not against giving any other province or any other locality an even break on the processing of raw material. We simply say that we do not want to find ourselves penalized in processing those materials.

MR. FRAWLEY: Anything else you want to call attention to in connection with hogs?

A. I think the table speaks for itself after we have made those several comments Mr. Frawley. I would like to turn for a moment now to Table 3 where we show the actual movement of live animals from the Province of Alberta and the source for this table is the "Livestock and Animal Products Statistics", a publication of the Dominion Bureau of Statistics. These are then the actual shipments of livestock from Alberta to outside points, and I would just note, for example, that in 1946 there were 180,000 animals, cattle and calves that is, sent from Alberta to outside points for slaughter. We have made an allowance for those animals which moved outside the province for finishing and with the hogs we find that in that same year 326,000 animals were shipped away or, shall we say, exported. With sheep and lambs in the same year the figure was 195,000.

Now, in connection with these figures, we state earlier that we thought the marketings were underestimated in Alberta. Similarly, we think that the statistics which we have reproduced in Table 3 were underestimated, the shipment of livestock from Alberta. The reason that we suspect that is the case is that you either get a count on these animals as they go through a public yard or as they end up in a packing plant. Quite a number of these animals are shipped from Alberta without even touching a public stock yard where they could be counted, as it were, and to explain why we think this is so on page 27 we detail some figures from other sources

which we convert for our purposes to illustrate the proposition.

Taking 1938, for instance, in Column A we find a figure there of 75,000 tons. That figure is 75,000 tons of livestock which is the net export of cattle and calves as we find that figure stated in the Summary of Monthly Railway Traffic Reports, and then we convert that figure by applying this figure of 20/9 which simply means that the average weight of each animal is 900 pounds and we find that in 1938, according to that estimate, we would have 156,000 animals exported.

Another way of arriving at the same or a comparable figure would be to take the total marketings in Alberta minus the local processing and there, as in Column C, we find that the figure is 229,000. Then, another estimate which we give in Column D is one which is made by the Alberta Department of Agriculture, and it is calculated from the Health of Animals Return and there we find that in 1938 the figure in 192,000. Then, in Column E, we have the approximate figure which we are using in Table 3 on page 26; that is, Table 3 on page 26 indicates that there were 133.04 thousand head of livestock exported and we detail it in Column E as 134. That is the statistical basis for this contention that we are making.

Now, reading from page 23, the following are typical examples of the present freight costs that apply on the movement of Alberta cattle and cattle products to consuming centres, and we use steers in these examples but the situation with hogs or sheep is comparable. Then, discussing our example No. 1 - and I would like to mention before we start this discussion that these examples

are, or I should more properly say the results that these examples indicate, are comparable to the results which Gainers Limited, in their submission to this Commission in Edmonton (and that submission is Exhibit No. 25) - that these examples are comparable to the ones they gave in that Submission. Dealing with these examples then, what we have attempted to do is find out transportation-wise at which point it would be cheapest to process a live steer that comes from a feed lot in Carstairs, Alberta,and which is going to be consumed at Vancouver, that is whether it would be cheaper to process it at Calgary or to process it in Vancouver.

MR. FRAWLEY: Where is Carstairs situated in respect of Calgary?

A. Carstairs is about 43 miles north of Calgary approximately.

Q. On the Canadian Pacific line to Edmonton?

A. Yes, or on the Canadian Pacific line to Calgary. The example then for Calgary processing, the steer which we are dealing with weighs 1000 lbs to start with but if you ship it from Carstairs to Calgary there is a shrinkage on it and we have allowed a shrinkage of 2 per cent. on this 43 mile move so we really only deal with 980 pounds of steer when we get it to Calgary, and that is what you pay the freight rate on, so we are charged on it say 14 cents per hundred pounds and we find the cost is $1.37. Then you process the steer in Calgary and you forward the meat from that steer to Vancouver and we use a dressing percentage of 60 in this example and the cost is $1.15 a hundred weight so the total cost of shipping the meat from Calgary to Vancouver is $6.76.

Q. You now have to turn over my lord, to page 28, where the example continues.

A. Then following on page 28 - or pardon me the total cost then as far as the Calgary processor is concerned is $8.13, so that if that steer moves from Carstairs to Calgary and the meat from Calgary to Vancouver, the total transportation cost in connection with the movement is $8.13.

Then, if you want to move the steer directly from Carstairs to Vancouver and process it out there, we find that the 1000 pound steer will shrink roughly 4 per cent. on its journey out there and it costs 56 cents a c.w.t. to ship him, so that the total cost is $5.38, so that this example shows that it costs very nearly $3 more from a transportation standpoint to process the animal in Calgary than in does to process it in Vancouver, presuming always that the meat is being consumed in Vancouver.

THE CHAIRMAN: Is that because meat is more expensive to transport than the cattle?

A. Having in mind, sir, the amount of meat that you get from a steer, it is more expensive to ship the meat than the livestock. We would never maintain that they should charge the same for shipping 100 pounds of meat as they do to ship 100 pounds of livestock; What we say is that, having in mind the production co-efficient, that is the amount of steer it takes to make one unit of meat,that the freight rates should not mitigate against the movement of meat.

Q. You say then that the freight rate on meat is too high?

A. Well, it could be either that the freight rate on meat is too high or the freight rate on livestock is too low.

MR. FRAWLEY: It is the relationship we are complaining of.

THE CHAIRMAN: Do you think then if a different relationship were established, one that you could work out, this processing would be done in Calgary and no in British Columbi

. Well, we eel sir that if the cost of moving the meat and the livestock, having in mind the co-efficients, was brought into a correct relationship that we would have an equal opportunity with the Vancouver man who processes this livestock.

Q. Have you worked out the relationship?

A. You mean the adjustment that would take place in the rate?

Q. Yes.

A. No sir, we have not because we were of the opinion t at this Commission would be interested in the application of the principle and in a consideration of examples which indicate that to-day this principle is not being followed. So we did not come prepared, sir, to argue either that the meat should be lower or that the livestock rate should be raised or just how much adjustment there should be in either one of those.

Q. Well, how do we know what the expense is of transporting meat from point to point and transporting livestock from point to point?

A. I am afraid, sir, that as far as I know --

Q. Have you considered it?

A. No, I cannot tell you what the costs of those are.

Q. You just show that if these two things were brought closer together, that is if the live animal costs more to transport and the processed meat costs less, the tendency would

be to have more manufacturing done nearer home?

A. Yes sir.

Q. But have you gone into the effect as to whether that is practical and whether that would be, from a running point of view, a fair way to have freight carried?

A. Well, we give the American instance a little bit later on which is very briefly that they have had this problem and considered it down there and they have come to the conclusion that you can adjust these things to within a rather narrow range and that it is practicable.

(Page 10695 follows)

COMMISSIONER ANGUS: Q. Does that mean that with these principles of assessment, a sort of a differentiation, you suggest that the slaughtering might take place at a point; does that mean that that principle may be a value of service of assessing rates?

A. I would say yes to that question. As I understand value of service, it is only our approximation of fact; that is, when you say that such and such a commodity because it is worth more should pay a higher rate, consideration of value of service does not say that it should pay a rate $1.00 higher or $1.05 higher or even 95 cents higher.

Q. It states there is a ceiling?

A. Yes, it does, but not in absolute terms; it gives you an indication.

Q. What I mean is this; is it the purpose of value of service to lower rates and then fix higher rates in order to give revenue to the railway?

A. Yes, there is that possibility if you make the assumption that the rate on the lower commodity is right at the point where the railway is maximizing its return from that particular movement, or on the other hand, you are able to determine whether adjustment in connection with the movement as a finished product. I do not subscribe to the view that the railways can fix with any definiteness this relationship.

Q. I was only making an assumption to see what you thought of it. Do you think this is a fair assumption?

A. No, sir, I wouldn't think so.

MR. FRAWLEY: Q. You have another example, having in mind slaughtering at Winnipeg and at Montreal?

A. This is Example No. 2 on page 28; simply the case of another illustration of the transportation costs when we move east. Now, the summation of that argument is found where we know that the total cost if you process a Carstairs steer in Calgary it is $14.72; if you process it in Winnipeg and move the meat from Winnipeg to Montreal the cost is $14.56.

MR. FRAWLEY: Do you see that, my lord; have you found the page in the submission?

THE CHAIRMAN: On page 28; yes. I am following that.

THE WITNESS: And the cost of Montreal processing is $13.21.

MR. FRAWLEY: That is an error, my lord; it should be $13.21 instead of $13.02.

COMMISSIONER INNIS: Q. What about Toronto?

A. I suggest that it would probably be just about the same amount as the Montreal one.

THE CHAIRMAN: Q. I notice that in the Montreal case you have a live steer from Carstairs to Montreal. What about the meat?

A. We assume that the meat would be consumed in Montreal.

Q. It would not go any farther?

A. No.

MR. FRAWLEY: Q. Have you corrected this figure for the movement of a live steer from Carstairs to Montreal; it should be $13.02, giving a total of $13.21?

A. The next one is when a steer originates at Grande Prairie, Alberta and moves to Vancouver for consumption, we find with the mountain differential removed that the Edmonton cost is $10.96 and that the

Vancouver cost is $7.58. Example No. 4 - an animal once again originated at Grande Prairie, and this is found on page 29, moving to Montreal for consumption the relative costs are $17.48 at Edmonton, $16.09 at Winnipeg and $14.85 in Montreal. Now, at the bottom of page 29 we note that in making these caclulations we have not added the costs of feeding, car cleaning and those other things incidental to live cattle shipments. We have also ignored the cost of icing and servicing refrigerator cars which move the meat. We find that these costs are very near one another for any particular movement, and we have some tables which indicate the cost of actual movements, and we would be glad to file those with the Commission if they would be of any use. There are two other things I would like to mention in connection with these calculations. First, regarding dressing percentages. We have said that the steer would dress at 60 percent. of the live weight. This percentage includes allowance for the hide and for other edible products.

MR. EVANS: We were wondering if the hide was edible?

A. No.

MR. FRAWLEY: We are practically down to eating the hides because of the freight rates, my lord.

THE WITNESS: A good butcher steer,which we will say weighs 1025 pounds, according to the Industrial Development Council of Canada, in a little publication which they were kind enough to send me, calculated that the edible by-products weighted about 80 pounds; that the hide weighs 54 pounds and that the meat would weigh between 450 and 500 pounds. From that I would gather that the present percentage which we have used is a reasonable

approximation of the fact. It grades animals, and, of course, they dress differently and it depends upon how far they have been moved. You can still, taking the average run of stock, arrive at the present percentage as being reliable and stable. The problem of shrinkage we have included in our examples, because it is an important fact in the case of movements. It will have an effect on the present percentages. We have analyzed a number of movements of cattle and calves to Vancouver and to eastern markets and it will be seen that the shrinkage figures were used rather conservatively. Once again, if the Commission would like to see these figures we would be glad to table these examples that we have. We also made a study of the shrinkage on the movement of meat in refrigerator cars and although, we do not have a great number of examples, we find there was an appreciable shrinkage there in that movement also, so these factors would all have to be considered in striking these examples.

COMMISSIONER INNIS: Q. There is no difference in the price of the sales of the finished products in the various centres?

A. Do you mean the price on all meat in Edmonton as compared to the dressed meat in Vancouver?

Q. Yes.

A. Livestock in Canada seems to be on the Chicago price less duty and freight at the Toronto market, and as you come west you find a differentiation between Toronto and Winnipeg, and then Calgary markets sometimes reflect that differentiation, and sometimes it does not because of the pressure of the west coast buying market.

Q. These are livestock prices you are talking about?

A. Yes, I have never been able to find anyone who could tell me with any assurance whether or not those livestock differences reflect the difference in the cost of transporting livestock or whether it is a difference in the cost of transporting meat, so as far as I was able to find out from the Department of Agriculture officials and from some people in the packing industry, it would not make any appreciable difference to the market relations whether you ship only 10 per cent livestock instead of 40 per cent or not.

MR. FRAWLEY: Q. Have you directed yourself precisely to what Dr. Innis was asking about? I believe you were asking the witness as to the relation of prices of meat?

A. They are directly related to the livestock price. As we see on page 29, there are four examples which illustrate the general condition, indicate that it is cheaper transportation-wise at least to process Alberta livestock outside Alberta when, of course, that livestock has to be consumed outside Alberta. This situation arises directly as the result of the relative levels of the freight rates charged on meat and on livestock.

Q. That completes what you wanted to say, about the fact of the rate relationship on livestock and meat?

A. It completes the examples that we are giving and the material on the finished product rate.

THE CHAIRMAN: Are you going into any other products outside of these?

MR. FRAWLEY: At this point we are, sir.

THE CHAIRMAN: You are going on to some other product?

MR. FRAWLEY: Yes, my lord.

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

THE CHAIRMAN: What is the next product?

MR. FRAWLEY: Petroleum.

THE CHAIRMAN: Your general proposition is that the transportation rates should be adjusted so that your raw material can be processed in Alberta?

MR. FRAWLEY: So the freight rate struck does not penalize.

THE CHAIRMAN: You say it penalizes you now?

MR. FRAWLEY: Yes.

THE CHAIRMAN: And you say it should be altered in such a way so as to enable you to manufacture your products in Alberta?

MR. FRAWLEY: That is what we think it would lead to. We want to develop our secondary industries.

THE CHAIRMAN: Do you want to make your flour in Alberta?

MR. FRAWLEY: That is another industry and there is something to be said about that in milling-in-transit. We think it is quite right and proper that we should at least develop our secondary industries.

THE CHAIRMAN: We must remember that behind all that there might then be an argument as to what is good for Alberta is good for the other provinces.

MR. FRAWLEY: Yes, Mr. Harries was of the opinion that we should have equal trade and not have to face anything in the freight rate structure to militate against it.

THE CHAIRMAN: You won't suggest the freight rate structure will not allow you to do your own manufacturing in Alberta out of your own raw material?

MR. FRAWLEY: I think I must say that what we seek is to take out of the freight rate structure anything that militates against that. That may be

saying the same thing in another way.

THE CHAIRMAN: You say the freight rate structure does militate against your objective?

MR. FRAWLEY: Yes.

THE CHAIRMAN: And you want it so adjusted that you want it meaning that?

MR. FRAWLEY: We want to take out the disability.

THE CHAIRMAN: And to leave what? You say you are suffering a certain disability whereby your raw materials go out of the province in a greater volume than your finished products do. You want an adjustment in processing in Alberta?

MR. FRAWLEY: More processing of livestock.

THE CHAIRMAN: And the shipment out of meat?

MR. FRAWLEY: Yes.

THE CHAIRMAN: Is that true then, along the line of all your other raw material products?

MR. FRAWLEY: No, each one falls into a separate class. I would rather the witness would develop the rest of the raw material part.

THE CHAIRMAN: On general principles it does not apply beyond livestock and meat? We heard something this morning about gas.

MR. FRAWLEY: Mr. Harries has developed the livestock and meat situation as an example of that, which is in the freight rate structure which militates against industry.

THE CHAIRMAN: Against home manufacturing?

MR. FRAWLEY: Yes.

Q. Have you anything to add to the observations I have been making, Mr. Harries?

A. All I would say, sir, that this meat and livestock is simply one example of which we think the

present freight rate structure militates against our secondary industries. It is just one example.

COMMISSIONER INNIS: You do not give any indication here of comparable distances in the processing of meat and livestock. What would be the comparison of moving meat from Edmonton to Vancouver and moving livestock from Edmonton to Vancouver?

A. The meat rate is $1.24 and the livestock rate is .54. We can find these figures for you.

MR. FRAWLEY: Q. Mr. Harries, if I understand Dr. Innis' question, you have this in your examples?

A. I haven't got the livestock from Calgary. I have meat from Calgary.

Q. That is livestock from Carstairs?

A. Yes, you mean moving livestock and meat from the same place to the same other place?

COMMISSIONER INNIS: Yes.

MR. COVERT: There are four people talking at the same time and the reporter is having difficulty.

MR. FRAWLEY: Mr. Chairman, I will undertake to file something which will precisely answer the question. We might do that for two or three instances.

MR. O'DONNELL: Accompanied by the mileage.

MR. FRAWLEY: Q. Now then, will you go on to the second example on page 29?

A. "A situation comparable to the meat-livestock example we have just cited, exists in the petroleum industry. In general the freight rate on crude oil is forty per cent of the fifth class standard mileage rate while petroleum products take a rate which is on the full fifth class basis."

Here, I would like to make the statement that along with that you have to couple it up with agreed charges or

competitive rates which may be on one of these products and not on the other. I say, in general, this is the situation. There are qualifications to that on any particular movement, of course.

> "The existence of this rate relation has had the effect of restricting the market for petroleum products produced in Alberta in favour of products processed elsewhere -- from Alberta crude oil. A company situated in Calgary, for instance, has not been able to service its dealer outlets in Saskatchewan from its Calgary refinery but has been forced to buy petroleum products for those stations from another refining company situated closer to the consuming point.

(Page 10710 follows)

THE CHAIRMAN: Q. Any question of distance that would arise there, that would explain it?

A. No, sir, I don't believe so. The fact was that they could, if you had, say the crude---

Q. Where did the Saskatchewan manufacturer get his crude oil from? He got it from Alberta, you say?

A. He got it from Turner Valley, yes.

Q. Is it less distance from that plant to the Turner Valley station than it is from Calgary?

A. No. Well, I use Calgary here in this example rather loosely, sir. As a matter of fact---

Q. What can be loose with Calgary?

MR. O'DONNELL: That is the way Alouettes used them on Saturday.

MR. FRAWLEY: That is the way Montreal found them the other day.

THE CHAIRMAN: Q. The real point is this, is it not, how far does the crude oil have to travel in each case?

MR. FRAWLEY: I think Mr. Harries can answer that precisely, sir.

THE WITNESS: Yes. In the case of what I have called the Calgary refinery, the crude oil just had to move from the field, a matter of a few miles, into the refinery. That is, to all intents and purposes there was no haulage of crude oil. Then you had to move the refined product out from that plant into Saskatchewan. In the other instance --

THE CHAIRMAN: Q. It is the freight on the refined product that is too high according to you, it that it?

A. Well, I would not be prepared to say, sir, whether it is the refined product that is too high or the raw material rate which is too low.

Q. Well, how does the Saskatchewan product come back into Alberta? How far does it travel?

A. It does not come back into Alberta, sir, --

Q. You said,

"A company situated in Calgary, for instance, has not been able to service its dealer outlets in Saskatchewan from its Calgary refinery but has been forced to buy petroleum products for those stations from another refining company situated closer to the consumer point."

I thought you told me that that other company was in Saskatchewan.

A. They are, sir

COMMISSIONER INNIS: Q. Is not the capacity of the Calgary refinery very limited?

A. No sir, they would be very pleased to service their outlets from their Calgary refinery.

MR. FRAWLEY: Q. We might get this clear. That particular refinery that you say experienced the difficulty purchased the crude oil in the Turner Valley?

A. Shall I use the name of the company?

Q. Yes, it does not make any difference.

A. Gas and Oil Products Limited have a refinery at Hartell which is in Turner Valley and they buy crude oil in Turner Valley. Then, they have retail outlets in Saskatchewan, and what they would like to do is to manufacture the crudeoil into gasoline at Hartell and then ship the refined product to these dealer stations in Saskatchewan so that the Saskatchewan motorists could use it.

THE CHAIRMAN: Q. Then there would be no movement

(Page 10713 follows)

from Hartell to Calgary

A: No sir. I used Calgary here, if I said Hartell there is only one plant in Hartell.

MR. FRAWLEY: That is the situation, just substitute Hartell, which is in Turner Valley.

THE CHAIRMAN: You have to use --

A: Another plant which is in Calgary --

Q: That is, a plant in Hartell, you say, and another plant further East in Saskatchewan.

A: Another plant in Regina.

Q: Now, the plant in Regina could get its crude oil in Alberta, manufacture it there and ship it out of there East at a lower rate than if it was manufactured in the first place in Hartell and then shipped East.

A: Yes sir.

Q: That is right?

A: Yes sir.

Q: Then again you are back to the beginning, are you not? You think the freight rates on the finished products must be higher than they ought to be?

A: Well, I would say yes to that, but I want to --

Q: That is, your raw material goes out to be finished elsewhere?

A: Yes.

Q: On account of the rate structure, is it not?

A: Yes.

MR. FRAWLEY: The rate relationship, this particular relationship in the rate structure, yes sir.

THE CHAIRMAN: To get back, your crude oil and gasoline are in the same relation as the livestock and meat.

MR. FRAWLEY: That is right.

THE WITNESS: Then in addition to these two examples which we say affect us in Alberta or which have affected us in Alberta, I should say, industries such as leather goods and tanning, wool processing, and soap manufacturing, are in most instances comparable.

Now, the difficulty with such a thing as soap manufacturing in this calculation is that you have a number of products coming into it, so you cannot lay it out as simply as we have in the meat livestock.

Then, that concludes the examples which we give in connection with the finished product raw material rates, and those are the rates which, we say, rates of this type illustrate consumer location.

Then taking raw material rates and finished product rates in another industry, we have an example of a relationship which produces producer location, and the illustration that we discuss very briefly is the situation in connection with Alberta's sugar industry, beet sugar industry. There looking at the rate situation we find that beets move from the field to the factory on a truck competitive basis and a sample of the rates is given in Table 4 on Page 31.

THE CHAIRMAN: Is that Alberta beets going to an Alberta factory?

A: Yes sir, these are the rates which apply into Raymond and Picture Butte.

Q: Both are in Alberta in this case?

A: Yes.

Q: The raw material and the plant?

A: Yes sir, because this is an example of producer location.

Q: Yes.

A: Then, we cannot get competitive rates on beets that go up for long distances, so what we did was we took 50% of the tenth class as having the taper and applied that, and in Table 5 we give an illustration of the freight costs on beets and beet products on a per ton basis when you have the factory and the field located at different distances.

Taking, for instance, our first example, there we have a factory which we will say is located 25 miles from the source of the sugar beets themselves.

MR. FRAWLEY: That is the second column of Table 5?

A: Yes. So you have a factory situated 25 miles from where you grow the beets. And then the place at which the sugar is going to be consumed is 175 miles from that factory or 200 miles from the field, and the question is ---

THE CHAIRMAN: Are the consumption points also in Alberta, or does it make any difference?

A: It does not make any difference, sir, in regard to this example.

Q: All right.

A: Having a factory then 25 miles from the field and the consumption point 175 miles from the factory or 200 miles from the field, it would cost, to move a ton of beets 25 miles, it would cost $1.00. And then you process the beets, and from a ton of beets you get roughly 300 lbs. of sugar, 50 lbs. of molasses, , 50 lbs. of dried beet pulp, and a lot of water. The cost of moving the 300 lbs. of sugar from this factory to the place where the sugar is going to be consumed, a distance of 175 miles, would cost $1.41. To move the 50 lbs. of molasses that same distance would cost .23¢. And to move the 50 lbs. of

dried beet pulp would cost .15¢. So that in this instance where you have the factory 25 miles from the point at which the beets are grown and the consumption of the sugar 175 miles further on, the total cost of getting the sugar to the consumer would be $2.79.

That cost has to be contrasted with the cost of moving the sugar beet 200 miles right to the consuming point and feeding them into the factory there. And the cost in that instance would $2.50. So that on this short distance of 200 miles we find that we would actually have a cost of $2.50 if we had what we call a consumer location, and a cost of $2.79 if we had a producer location.

We said this is an example of producer location and we find that is right. The closer you get over this distance of 200 miles, take the example at 500 miles, we find that the relative costs are $4.15 for the plant located in the sugar field and $4.20 for the plant located at the consuming point.

THE CHAIRMAN: These by-products and other products, are they always shipped out too? The pulp, for instance?

A: No sir. Actually, we might get a more realistic example if we assumed that the pulp certainly stayed where the factory was. That is the pulp attends to its own industry. It is just cattle feed. So they move the cattle not the pulp and as far as the results go it is the same, it is true, that we may see the true picture if we just took the sugar.

Q: You would then have, instead of $2.79, what would you have?

A: $2.41

Q: $2.41?

A: Yes sir, as against $2.50. So that would give us a producer location.

Q: No, I am talking of the top line. What should it be then instead of $2.79?

A: $2.41, sir.

MR. FRAWLEY: The dollar beet cost added to the sugar cost of $1.41.

A: Yes, that is correct.

Q: Making a cost of $2.41.

COMMISSIONER INNIS: What cases are there of plants located at 200, 500, and 1000 miles from the field? Are these all fictitious cases?

A: Yes sir.

Q: You have no cases in which beets actually do move any great distance?

A: No sir, I know of none.

COMMISSIONER ANGUS: This takes no account of the difference between the cost at one big factory and a lot of smaller factories. I mean you assume the cost of processing would be the same?

A: Yes sir, this is just the transportation cost.

THE CHAIRMAN: As a matter of fact, what becomes of your raw material today in this case? Is it manufactured in Alberta principally?

MR. FRAWLEY: The by-products?

THE CHAIRMAN: No, the whole thing, the sugar.

MR. FRAWLEY: It is sold ---

THE WITNESS: It is manufactured in Alberta.

THE CHAIRMAN: Where is it made, though?

MR. FRAWLEY: It is made in southern Alberta, right in the sugar beet field, at two places, Raymond and Picture Butte.

THE CHAIRMAN: So the beets, that is, the raw

material, are processed right in Alberta in that case.

MR. FRAWLEY: That is right. This is an illustration of the transportation freight rate structure not militating against the producer location.

Those places, naturally, Dr. Innis, those points, 200 miles, 500 and 1000, Mr. Harries said they are fictitious. It is as though the beets were moved to, say, Calgary and then a sugar factory at 200 miles, say, Medicine Hat, and another one at Regina perhaps and Winnipeg for the 1000 miles.

COMMISSIONER INNIS: I was thinking the reduced weight really from 2000 to 400 lbs. really compels the plant to locate very close to the field.

MR. FRAWLEY: That is right, sir.

THE WITNESS: It would compel it providing the freight rates didn't act in the opposite direction. That is, the meat livestock we just indicated, there is a weight loss there, but the rates offset --

Q: Nothing comparable with this?

A: Not in percentage terms of reduction, no, there is not.

MR. FRAWLEY: Now, will you pass on?

A: Well, we can mention at the middle of page 32, that there are other industries which are affected by producer-location rates and more or less in this we may include agricultural processing plants handling canned vegetables and evaporated milk and so on. They are probably affected by perishability to a greater extent than is sugar, and in the general industrial field certain coal products, and then building brick manufacture and so on, are other examples.

Then the third illustration which we deal with is the flour milling industry, where we find an instance where

the relationship between raw material and finished product rates has a completely neutral affect upon the location of the processing plant.

THE CHAIRMAN: So there is no fault then to be found with the transportation rates in that regard?

MR. FRAWLEY: No sir.

THE CHAIRMAN: Either on the pulp or the beets?

MR. FRAWLEY: That is how we develop it in the brief, sir. We are giving them as examples of the three kinds.

THE WITNESS: Just to take this example we have on Page 33 of grain which originates at Red Deer and moving to Vancouver for consumption as flour --

THE CHAIRMAN: Pardon me, you say grain moving from Red Deer to Vancouver for consumption as flour -- turned into flour where? In Vancouver?

A: In Vancouver or in Calgary.

Q: Or in Calgary?

A: Yes. The cost of that movement from Red Deer to Vancouver, if it was to be milled in Vancouver, would be .39½¢. It is a domestic grain rate to Vancouver. However, if you wanted to stop that car off at Calgary and mill and send the product out --

Q: Supposing you milled right in Red Deer?

A: In that case, sir, the cost would be .39½¢. There is no transit charge in the .39½¢, sir.

COMMISSIONER INNIS: Would not that be minimized, the bran and shorts and so on taken out of the flour?

A: Well, I was using -- the grain and all products, sir. You could send them all out or a proportion of them. The rate per hundeed pounds on other products or grain would be as indicated here.

THE CHAIRMAN: When it leaves Red Deer whether it is

flour or grain it goes at the same rate?

A: Yes sir.

COMMISSIONER INNIS: What would be the shrinkage?

A: I think they mill it at 85 -- 85 is probably high -- I think about 80.

Q: 80%?

A: Yes.

Q: That is wheat?

A: Yes. I would not say quite as low as that.

MR. EVANS: I think there is a figure in Professor Locklin's book that might be helpful. I think he gives the figure of 200 lbs. of wheat should produce 196 lbs. of flour. I think that works out about 27%.

THE WITNESS: 27% shrinkage?

MR. EVANS: Something like that.

THE WITNESS: Well, it depends on what kind of flour you are making. If you are making real white flour--

THE CHAIRMAN: The more you refine it the more you lose.

MR. FRAWLEY: Professor Locklin says 76, you say 80.

A: Yes, about 85 seems to me about the best run you can get out of flour.

Well, if you take this wheat that originated at Red Deer and send it to Calgary and process it and then right through, you would have a rete of 40-3/4¢ in total. In other words, it would be 39½¢ plus .01¼¢ for the stop-over for milling, so that the difference there is 1¼¢ between the raw material and the finished product combination.

It might be better, for our purposes, to make it clear, to take the example No. 3, where you move it from Red Deer for export as flour or for domestic consumption.

and there you could originate that grain at Red Deer and stop it off at Calgary, mill the grain, and when you ended up with the flour at Montreal you would find the cost would be the same. That is, you could stop at Calgary or Moose Jaw or even get down, stop it at Kenora, and then move it on, and the price would still be the same. So the milling in transit privilege --

THE CHAIRMAN: Well, supposing you milled the grain right in Red Deer, the price would still be the same?

A: It would be less the milling in transit cost, $1\frac{1}{4}$¢.

Q: The rate would be the same less the stop-over charge?

A: Yes sir.

COMMISSIONER INNIS: Do you mean the rate on bran and shorts and so on is the same as it is on flour?

A: Yes sir, as I understand it.

MR. FRAWLEY: The last paragraph on Page 33, will you just read that, Mr. Harries?

A: "The milling in transit privilege is exactly the same for milling at all intermediate points on a direct line of transit so in this case --

THE CHAIRMAN: There is nothing in the freight rate structure then on grain which militates against the manufacturing of grain in Alberta?

MR. FRAWLEY: That is right, sir. That is why we say it has a neutral effect.

(Page 10725 follows)

THE CHAIRMAN: Is there something in the freight rate structure on grain which militates against the manufacturers of flour in Alberta?

MR. FRAWLEY: That is right sir. That is why we say it has a neutral effect.

COMMISSIONER INNIS: Well, has it a neutral effect? If the rates on bran and shorts are the same as on flour, obviously it would be much to the advantage of the milling company to get nearer the source of purchase of bran?

A. Where there is a difference in market it certainly would, sir. The direct effect of the milling-in-transit privilege has been to direct the establishment of or conduct the operation of mills situated in non- wheat-producing areas. In the absence of such a privilege Alberta points and ports such as Vancouver and Montreal would have more milling industry.

Professor Jackman in his Economic Principles of Transportation obviously supports this idea when he states at page 595:

> "In the United States the gradual expansion of settlement westward and the relative decline of agriculture in the east caused the eastern flour mills to face a serious situation. Their local supplies of wheat were dwindling and they had to draw their wheat from wider and wider areas as the wheat-producing territory pushed farther and farther westward. But as the production of wheat advanced westward newer mills were established nearer the sources of supply; and these had an advantage over the older mills in the east in that they could get their wheat at the lower freight rates, while their flour being more valuable than the wheat could stand the longer distance haul to the markets of the east.

or a time it seemed as if the eastern mills would either have to go out of business or else move west near the sources of their raw material, for with their long haul on the wheat and the full local rate on the outward movement of flour they could not compete with their western competitors, which obtained their wheat at a very low cost of transportation and sometimes locally without any rail haul. To save the situation, so far as the eastern mills were concerned, the railways developed the system of milling-in-transit rates, under which the inbound movement of wheat and the outbound movement of flour were treated as practically a continuous movement from the point of origin of the grain to the ultimate destination of the flour. By this means it was immaterial where the mill was located along the railway line, for the through rate from the point of origin of the wheat to the destination of the flour would be the same. The through rates displaced the combination the two locals, on the wheat inbound and the flour outbound."

And then Professor Jackman goes on to say that: "

"This system extended to Canada and was equally advantageous because the production of wheat and the flour milling industry had gone through the same evolutionary stages in its westward expansion as in the United States"

THE CHAIRMAN: Is your conclusion this, that this milling-in-transit principle should be extended to other materials besides wheat?

A. No sir, we believe that the point at which the raw material is produced should not be militated against so far as the processing of that product is concerned.

Q. Then Mr. Frawley has just told that this milling-in-transit does not militate against Alberta?

A. I don't want to say that I would not agree with that, sir, but it gives us an even break with veryone along the line to mill our own flour.

Q. That means you are not in any worst position than anybody else along the line?

A. That is right sir.

Q. Then I say if you applied it to other products, other raw materials, what would be the result?

A. The result would be, I guess, that we could have the same advantage as anyone else long the line.

Q. You would not have such an advantage if your product travelled longer nor would you at the . rate if it is at some intervening point as before it was processed?

A. Well, we would have just as much advantage as we want to-day.

Q. You would be in the same position as you are with wheat?

A. Yes sir, but we do not advocate the application of that idea of in-transit privilege because, for one thing, we do not think that in all cases it would be an admirable arrangement to have the railways move a finished product at the same rate as the raw material?

Q. You do not think it would be fair to the railways?

A. We think with the transportation system which is based on this value of service principle that there is a certain validity to it. We are not going to say it is the only principle but we think it is reasonable if you only take care how you apply it.

Q. But you see you have given us this instance with wheat and flour milling-in-transit and so on. What do you want to apply them to? You say it is very satisfactory as far as you are concerned?

A. Yes sir.

Q. In regard to the manufacture of flour and the production

of wheat but what do you want to make it apply to? You give it to us as an instance of something that might be done in that line?

A. No, I think we just give it as an instance of a rate which has no effect on location of industry and we do it in the same way as we are presenting the example in connection with sugar beets. We do not want any re-adjustment in the sugar-beet industry of the rates at all; it is only an example to show what we mean by producer location.

Q. Can you apply this at all to your livestock industry shipments?

A. We can apply it, sir, but I do not think that we would ask to have it applied because of thefact that in our opinion the intermediate point anywhere along the line should not be faced with the same transportation problems as either the consuming point or the producer point.

Q. Well, what I meant was that so far all I have gotten out of this is that this milling-in-transit of wheat and flour and so on is that it produced a satisfactory result with Alberta. What has it got to do with your other raw materials?

MR. FRAWLEY: My lord, it points up what we stated in the first instance. We have endeavoured to expose the whole situation completely and we have given you an instance of the feature in freight rate structure which militates against producer location and then we have given you an example that assists in the producer location. It does not at least militate against producer location - the suger beet industry, and then we have given you the milling-in-transit asa neutral instance.

.THE CHAIRMAN: What do you want done on that basis?

MR. FRAWLEY: Nothing with respect to milling-in-transit, sir.

THE CHAIRMAN: You don't want to have it applied to any

other product?

MR. FRAWLAY: No, it is not here as a complaint at all, sir; it is here to point up the instances where we do think we have a grievance and the limit of that is the meat and live-stock relationship.

COMMISSIONER INNIS: How much of a milling industry have you in Alberta?

THE WITNESS: I cannot tell you offhand. We have some good mills there.

MR. FRAWLEY: Let me ask you this question, Mr. Harries. The milling-in-transit privilege certainly gives us no advantage for the processing of our own wheat over Kenora, Ontario?

A. No, if there was not a milling-in-transit privilege, there would not be a mill in Kenora. There is no doubt about that. I think there is every reason to suppose that if there was no milling-in-transit privilege there would be more flour mills in Alberta.

THE CHAIRMAN: What you have in mind is a stop-over privilege?

A. Yes sir.

COMMISSIONER ANGUS: Now the suggestion of Professor Jackman in the illustration that you cited just now is that this system was introduced to protect the vested interests of established flour mills in the east and to prevent the more virile competitor in the west from putting them out of business?

A. Yes, it is protecting eastern industry against an industry which might have been flourishing to a much greater extent than it is now in Alberta, in Saskatchewan or in Manitoba.

Q. But you are being generous in saying: "Here is something which perhaps is not quite right but it conforms so much to our system of agricultre that we will accept it"?

A. We are not coming to the Commission to say "We want help in this regard or that regard" but we are simply saying "Give us an even break with the rest of the people and we will take our chances on the freight rates". That is exactly what we are trying to get across in this brief.

MR. FRAWLEY: I would liketo clear up any doubt in your mind, my lord, as to why we introduced the milling-in-transit privilege. Perhaps it is now clear from what Mr. Harries says.

THE CHAIRMAN: Well, is this notthe case, that both flour and wheat move at the same rate?

MR. FRAWLEY: That is as I understand it, sir.

THE CHAIRMAN: Whereas in the case of your other natural products, the raw material and the finished product do not move at the same rates?

MR. FRAWLEY: That is also true.

THE CHAIRMAN: The only difference with wheat is that if wheat moves to a certain point and then is taken off and made into flour, the flour continues as if it had been still wheat all the time at the through rate?

MR. FR WLEY: That is right.

THE CHAIRMAN: Now, do you see any general principle behind that?

THE WITNESS: Well, my lord, it is one of the techniques for moving raw materials.

Q. I know it is but it is a technique that you do not want to apply to any other product so far as I can ascertain?

A. At the moment we are not here to ask the Commission to apply it to anything of the sort. I think that in the words of Professor Angus we are bringing it here to show, as we say, that it is somewhat anomalous but it does conform to our idea of a somewhat neutral form of transportation.

Q. You would not want your livestock to be shipped as far west as Kenora and taken off and turned into meat and then continued to be shipped on further as if it was livestock?

A. I would not think,so, sir, no.

Q. All right then.

MR. FRAWLEY: At this point, my lord, we pass from the discussion of relationships between raw materials and finished product and we discuss some other situations in the freight rate structure whichmilitate against industrial location in our Province.

THE WITNESS: This is part B which we first mentioned on page 20 where we said we made distinctly two broad divisions of the subject matter - A which we have just dealt with and now comes B.

THE CHAIRMAN: That is on page 34?

MR. FRAWLEY: Yes sir, at the bottom. Now will you begin to read there at the bottom of page 34, Mr. Harries?

A. "Aside from the rate relations which exist between raw materials and finished product, industrial location may be influenced by the relative rates between and within competing territories. Relatively high rates in one area, although they may act as a trade barrier protecting the local market, generally have the effect of increasing the transportation bill for industry and commerce located in that area, and of limiting the market for locally produced commodities.

For the most part the locational aspect of market rates is a derived one, and stems from the general principles utilized in formulating the freight rate structure. If those principles involved iscrimination between certain localities and areas these will be at a disadvantage as far as industrial location is concerned".

Q. Now Mr. Harries, how many of these things are you going to discuss?

A. There are seven of them that we discuss here. The first one is the long-and-short-haul discrimination.

THE CHAIRMAN: Will you please tell me to begin with what is the meaning of "the locational aspect of market rates is a derived one"? Do you mean it is derived from the general principles?

A. Yes sir, it is sort of an end product from the principles which you used in formulating the general structure. Itdoes not sort of stand on its own feet but it flows as a result of the considerations you have in mind when you establish a freight rate structure itself. It is almost incidental to , I would say.

COMMISSIONER INNIS: This is brought out in the seven cases?

A. Yes sir. The seven caseswe deal withare the long-and-short-haul discrimination, the Interline Rates, Distributing Rates, Agreed Charges, the Stop-off Privilege Rate groups and Developmental Rates.

MR. FRAWLEY: Now will you proceed then to - I think you might read in the record then (they are all fairly briefly dealt with) if you will just read into the record the description.

A. "Long-and-short-haul discrimination has very decided implications for industrial development. The position of the vegetable canning industry of Southern Alberta is one example we may cite. This industry is unable to get the benefit of its proximity to the west coast market because vegetables grown and canned two thousand miles furth east have been able to move into that market at a lower rate. The evidence of the Alberta Canning Company of Magrath in the Thirty Percent. Case is interesting in this regard. Mr. Eddington, President

of that company, stated in his brief to the Board:

'We further object to the present rate of 96 cents per 100 pounds for Toronto shippers to ship canned goods into Vancouver, in comparison with our rate of $1.16. .' ".

Q. Where was Mr. Eddington located?

A. He was at Magrath.

Q. And where is Magrath?

A. It is about 23 miles south of Lethbridge. So he paid $1.16 to get his produce from just below Lethbridge into Vancouver and the same goods were coming for 96 cents all the way from Toronto. He says: "

" 'It is our further claim that geographically Vancouver should be one of our markets, and should be considered the same as in the U.S. where our freight rates take care of us from Utah to our Pacific Coast . . .' "

THE CHAIRMAN: By the way, has this the effect of a competitive rate?

MR. FRAWLEY: That is the Transcontinental Rate from Toronto to Vancouver as against the rates from Magrath.

THE CHAIRMAN: Is this Transontinental Rate a competitive rate?

MR. FRAWLEY; It is so called, sir.

THE CHAIRMAN: That is the justification advanced for it?

MR. FRAWLEY: That is right, sir.

MR. BRAZIER: I think, Mr. Chairman, Mr. Frawley might put on the record what the present rates are. This brief was prepared several years ago and the rates have naturally changed.

THE CHAIRMAN: If the present-day rates are here and available we may as well have them.

THE WITNESS: The present-day rate will be shown in our brief. We are quoting Mr. Eddington here and it is impossible for us to change his evidence.

THE CHAIRMAN: What are the present-day rates, Mr. Brazier?

MR. O'DONNELL: $1.40

MR. BRAZIER: I believe the rate from Toronto to Vancouver is now $1.40. I have no idea what the other rate is.

MR. FRAWLEY: Well, without knowing what the other rate is, it is useless. That is my only point. That can be supplied, sir and we are going into this thing in much more detail in our long-and-short-haul brief. We were only pointing out where the long-and-short-haul militates against the development of that industry in Southern Alberta.

THE CHAIRMAN: I only wanted to make sure that the only answer was that of competition. It is a competitive rate?

MR. FRAWLEY: It is a so-called competitive rate.

MR. O'DONNELL: It is a competitive rate.

THE WITNESS: Mr. Eddington had only come up from Utah where he owned four or five factories and established this plant in Magrath and he found out after he got there that he had this situation, and he availed himself of the opportunity in the Thirty Percent. Case to go up and discuss it with the Board and that is why he says that ". . our freight rates take care of us from Utah to our Pacific Coast..". He was comparing his Magrath plant with these other plants he owned there.

THE CHAIRMAN: He took this case to the Board?

A. He mentioned this when the Board were on their original sittings on the Thirty-Percent. Case.

Q. Did the Board mention it or do anything about it?

A. I am sure they did not do anything about it. They may have mentioned it.

MR. FRAWLEY: They certainly did not do anything about it but they may have mentioned it in some part of their Judgment.

THE CHAIRMAN: I thought perhaps you had the allowance?

MR. FRAWLEY: Oh no, they increased; they authorized an increase of 21 percent in Mr. Eddington's R.te and as to what they said about the Transcontinental Rates which are so-called competitive rates and are in the discretion of the railways, that is another matter but the fact is, of course, as Mr. Brazier points out, that 96 cents is now $1.40 - 96 cents to Vancouver has now become $1.40 and what Mr. Eddington's $1.16 becomes, that is fairly easily ascertained; it is $1.16 plus 21 percent plus 8 percent. It has had two increases since then.

THE WITNESS: The mountain differential came off there which lowered that.

MR. FRAWLEY: Yes, so we would have to look that up, Will you go on to the second subject you are going to discuss?

A. I think I would like to say -

THE CHAIRMAN: On this long-and-short-haul discrimination, have you any other instance apart from this one of so-called, as you put it, Transcontinental competitive rates?

MR. FRAWLEY: Oh yes, we have a very large and complete brief on the long-and-short-haul which will be presented later in the week.

THE CHAIRMAN: I see you mention it here in the first brief.

MR. FRAWLEY: But this is just to bring together those series of things in the structure which we say militate against the establishment of industry.

[illegible] not to [illegible] [illegible]

MR. [illegible]: [illegible] a [illegible] of [illegible]

[illegible] perhaps you [illegible] the followers

MR. [illegible]: [illegible] they [illegible]

[illegible] in the [illegible] of

[illegible] first is, of

[illegible] 50 cents is now [illegible]

[illegible] \$1.40 and what [illegible]

[illegible] [illegible] two

MR. PEABODY: [illegible]

[illegible] of [illegible]

[illegible]

THE CHAIRMAN: This is a compendium of your brief?

MR. FRAWLEY: I would not like to say. This is just one paragraph and I think there are 150 pages in the long-and-short-haul brief. Do you want to say something more, Mr. Harries?

THE WITNESS: I thought I would read this last sentence:

> "The vegetable canning industry in Southern Alberta is appreciably smaller than it might be because of long-and-short-haul discrimination. The manner in which Interline Rates are constructed also has an effect upon industrial location. A new salt plant at Lindbergh, Alberta, a Canadian National point . ."

Lindbergh is east of Edmonton and north-east of Calgary on the Canadian National Railways.

(Page 10740 follows)

is assessed an arbitrary. . ."

THE CHAIRMAN: You call it "a surcharge"?

A. I think the more technical term is "arbitrary".

". . . of 6¢ per hundred pounds on all traffic which moves to Canadian Pacific points. The effect of this addition to the through rate is to seriously qualify the competitive position of this plant vis a vis plants at Waterways, Alberta, Unity, Saskatchewan, Neepawa, Manitoba, and Windsor, Ontario, all of which receive the through single factor rate because of location on both lines or at least proximity to both lines."

MR. FRAWLEY: You speak about a salt plant at Waterways, Alberta. On what railway is that?

A. On the Northern Alberta Railway.

Q. Because the Northern Alberta Railway is owned jointly by the Canadian National Railway and the Canadian Pacific Railway the single factor rate is made as though it was over the Canadian National Railway or the Canadian Pacific Railway?

A. Yes.

"As a result of transportation costs which hamper the competitive position of the Lindbergh plant a program of expansion which would be of material assistance to industrial diversification in Alberta is being hindered."

THE CHAIRMAN: I suppose we will hear more about the interline rate question?

MR. FRAWLEY: Yes, my lord, we have a separate brief on that.

THE WITNESS:

"The existence of distributing rates from certain places and the lack of those rates from

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

others also has an effect upon industrial location. The position of a plant at Gap, Alberta, which manufactures mineral insulation is of interest in this regard. This plant is in competition with one at Moose Jaw and others in Eastern Canada in supplying insulation to the prairie market yet the Gap plant pays at least 15% more than its competitors on each pound of freight it ships."

MR. FRAWLEY: Q. Where is Gap?

A. Just west of Calgary, about 53 miles; pretty close to Exshaw.

Q. On the main line of the Canadian Pacific Railway?

A. It is very close to the main line.

"Thus if the Gap plant wishes to get into Medicine Hat, a point 238 miles east it pays a rate of 62¢. The Moose Jaw plant which is 258 miles east of Medicine Hat can get into that market on a 57¢ rate. The fact that the Gap plant is now under bondholder operation is not unrelated to this freight rate discrimination which worsens its competitive position."

To make it clear the Moose Jaw plant comes into Medicine Hat on a distributing rate and the Gap plant has no distributing rate and this Gap plant pays 15 per cent more.

Q. Is there any other matter you want to discuss?

A. "The problem of market rates and industrial location may also be related to the use of Agreed Charges. These Agreed Charges are a development of the Transport Act of 1938 and subsequent amendments. An Agreed Charge is a contract rate given

by a railroad, or railroads, after an agreement which is subject to approval by the Board of Transport Commissioners has been made with a shipper who guarantees all, or a specified part, of his business to the railway granting him the rate. In return for a volume commitment the shipper is given a special rate for a stated or unlimited period of time. The agreement may be terminated by either party upon notice.

The purpose of Agreed Charges is to enable the railroads to more effectively meet the competition of water and truck carriers."

Q. You refer the Commission there to the debates in the House of Commons in the 1938 Hansard?

A. Yes,"the McColl-Frontenac case which we mention in Part III of this submission provides a good example of the implications of Agreed Charges for industrial location. In addition there are certain more general matters which must be considered."

"The position of the small shipper is made difficult by Agreed Charges. The Transport Act provides that if it be proved that a contract unjustly discriminates against a competing shipper that shipper may ask for similar treatment. The complaining shipper must show that 'substantially similar circumstances and conditions' prevail. This is a most difficult requirement and indeed having in mind that two plants in an industry seldom have similar conditions as to their marketing requirements it is very likely to be an impossible one. One example which illustrates

this may be found in C.N.R. and C.P.R. v. Lion Oils Ltd. (1939) 50 C.R.C. 166 where counsel for the Lion Oils stated:

'that that company could not become a party to the Agreed Charge as it could not undertake to move all its traffic by rail, as the oil companies, parties to the agreement had undertaken to do, because it has not tank stations established at the various points on the railways.'

Having in mind the differences in market requirements it may also be shown that a small plant would be unable to take advantage of the Agreed Charge granted a large competitor. This would happen in any instance where the relative proportions of long-haul traffic and short-haul traffic differ significantly between the two plants."

There is another thing which we would like to mention in this regard, and that is the "higgling" that goes on in connection with agreed charges and we submit that something should be considered when stheir propriety is under examination. We would like to mention here the case of the Central Alberta Dairy Pool, which had an agreed charge from Alix, Alberta, and this agreed charge was signed, I think, in 1941 with the Canadian Pacific Railway and it covered the movement of butter from this plant. It was signed, so I understand,

because of the threat of truck competition. After negotiation, the rate from Alix to Vancouver which was the key rate in this business, was established at $1.45. This represented an 8 cent differential over the Calgary rate. In anticipation of a continuance of this

agreement, the C.A.D.P. put a spur into their plant. This agreement followed through until the 21 per cent increase of April 8th, 1948, at which time the Calgary rate became $1.66 and the Alix agreed charge $1.75. With the removal of the Mountain differential the Calgary rate was reduced to $1.52. The railways refused to make an adjustment of the Alix rate to $1.52 plus 8 cents equals $1.60, and consequently the agreed charge became non-operative. It was non-operative because the mileage rate from Alix to Vancouver with the Mountain differential off was only $1.71. The railways maintained that they were not under any compulsion to bring the Alix agreed charge rate into line with the new Calgary charge and, further, they felt there was no longer potential truck competition. It is of interest that the Canadian Pacific Transport Company had bought out Dench after 1941 and it was Dench who was going to provide the competition in the hauling of this butter out of Alix. With the 8 per cent increase, the Calgary rate became $1.64 and the Alix agreed charge rate $1.75, so that is what they are using at the moment.

MR. EVANS: Mr. Frawley, have you some correspondence on this statement of fact upon which you are relying?

MR. FRAWLEY: No; if you put it to us we would have to bring Mr. Johnson and Mr. Dench here from Alberta.

THE CHAIRMAN: Here is someone who has an agreed charge with the C.P.R. and he feels he has not been treated justly. How does it constitute a charge against agreed charges that were allowed under the Transport Act?

MR. FRAWLEY: Q. Why do you mention the difficulty between the C.P.R. and the Central Alberta Dairy Pool at this point?

A. We thought that was another thing that should be kept in mind when agreed charges were being considered as to the higgling that goes on between shippers and the railways.

THE CHAIRMAN: Q. You mean "bargaining"?

A. Yes.

Q. How else can you get agreed charges?

A. We feel that with the case of the Central Alberta Dairy Pool that they had made an agreement and they found that they were left high and dry with no agreed charge and without the means of competition immediately at their disposal, and we thought that that kind of thing should not go on.

Q. Would not this particular thing have been better if they had not gone into this agreed charge rate?

A. I couldn't tell you.

Q. So far as that case is concerned, the agreed charge has been attacked because they say it is unfair to other shippers because it favours the person that enters into this agreement?

A. I do not feel that because the Central Alberta Dairy Pool had an agreed charge with ---

THE CHAIRMAN: You cannot enter into an agreed charge contract between the railway and the shipper.

MR. FRAWLEY: I agree with you. We thought we would bring up this by way of indicating the somewhat unsatisfactory situation that resulted between this dairy and the Canadian Pacific Railway.

MR. O'DONNELL: They were afraid to go to the Board.

A. They sat there for three and a half months.

THE CHAIRMAN: Q. You are opposing this agreed charge?

A. Yes.

Q. On what general ground? So far you have only said it is liable to produce a difference of opinion between the railway and the shipper himself. It is unfair to the other shippers?

A. Yes, we say that the position of the small shipper is made difficult and similar conditions had not, in fact, existed. There is another thing that we would also like to mention, and that is, in our opinion, the revision that took place in the Railway Act in 1903, when the Board was appointed or the essential revision to protect the shippers, particularly the small shipper. Then we would like on the agreed charge a return to the condition that prevailed before 1903 with regard to the small shipper. In our opinion, that in itself is con-

a consideration which should bear some weight in considering the propriety of these charges. We also go on and say, and I am reading from the brief now:

> "A more fundamental disability pertaining to Agreed Charges is the fact that they interfere with legitimate competition from other carriers. In our submission the only effect of legislation of this kind, which hampers free competitive influence within the transportation field is to increase the overall cost of transport service to the users. As we will point out in our submission dealing with truck transportation the problem of regulating those

[illegible]

[illegible]

[illegible] one that is, it not [illegible]

the [illegible]

when the Board are [illegible]

to [illegible] the [illegible], the small [illegible]

[illegible]

[illegible] valid before 1903 will [illegible]

small [illegible] In our opinion, that it should be [illegible]

[illegible] which should [illegible] in con-

[illegible] the majority of the [illegible]

[illegible]

[illegible]

segments of an industry which are essentially monopolistic is to make certain that all factors are not equated at the monopolistic level."

That covers our submission in connection with agreed charges. On page 38 we mention the stop-off privilege, which we think, has a certain implication to industrial locations.

(Page 10750 follows)

MR. FRAWLEY: I think you should perhaps explain---

THE CHAIRMAN: I beg your pardon?

MR. FRAWLEY: I was going to ask the witness to define that expression.

THE WITNESS: Well, the stop-off privilege is like the in transit privilege, You can stop a car for loading, to completion of load and things of that description, and it has been recognized by the Board and we give in a footnote reference to some of the judgments, that the stop-off privilege is the prerogative of the railways to give.

THE CHAIRMAN: And you say that privilege should be taken from them, do you?

A: Yes sir. We say that the Board of Transport Commissioners should be the people concerned with that privilege.

Q: And you explain that in another brief, is that so?

A: No, this is --

MR. FRAWLEY: No, we say no more about it than this.

THE WITNESS: This is all we say about it.

THE CHAIRMAN: I for one am not familiar enough with it.

MR. FRAWLEY: I think that is why you had better explain, Mr. Harries, just how this stop-off privilege operates and the manner in which it is the prerogative of the railways, just taking one kind of stop-off privilege and elaborating on that.

A: Well, take the case of Mr. Eddington, who we mentioned previously. He had a plant situated at Magrath and he had another one situated at Brooks.

Q: Both in Alberta?

A: Yes. And say he would have some corn probably at Magrath --

THE CHAIRMAN: Some what?

A: Corn, part carload. And he would want to move that East, but he would want to complete his car by stopping it off perhaps say for some peas. Well, I forget the charges in connection with that. But at any ratesI know he had some difficulty about it and he felt that he should be able to go to the Board. And if I remember correctly in that instance he had to deal with the railways, it was their privilege to grant or not to grant this privilege, the stop-off privilege, and it is our contention generally --

Q: Are you in favour of or are you against stop-off privileges?

A: We are in favour of them, sir, but we think the administration of it should be the job of the Board to grant or to take away the stop-off privileges, and that is not the case as we understand it today.

Q: Then do you mean to say that the Board in every case where a stop-off arrangement is thought to be desirable by a shipper should authorize it to be done, is that what you mean?

A: No, only they would hear from both sides. If the shipper wanted it and the railway didn't want it, then certainly the railway should have the opportunity --

Q: You say in each case then the Board should decide whether the railway should give this stop-off privilege?

A: Yes, or in certain instances, if it is applied to a particular industry, it would only take probably one case to establish that that is acceptable.

Q: I suppose that is something that is always

asked for by a shipper.

A: I think so, yes.

Q: It is not something that the Company holds out to the shippers, is it?

A: No, I don't think so, sir.

Q: It is not like agreed charges, or is it?

A: Well, I don't know.

Q: You don't say much about it here.

A: I don't know whether the Company holds out ---

Q: You say the Board should have jurisdiction over ---

A: I don't know what it is --

Q: Would you have the Board in every case, supposing a shipper, such as the gentleman you mention, is shipping cars partially loaded, he wants the right to stop that car some place and complete the loading, and the railway does not want to concede to that. Would you go to the Board, according to you, in each case to have the Board say "you must stop this shipper's cars at this certain point", would you want that?

MR. FRAWLEY: What we say is there should be what you might call a right of appeal against the railways right to refuse the privilege.

THE CHAIRMAN: That is the point, you would have to go to the Board, in each case.

MR. FRAWLEY: In each case of dispute. That would be only a small fraction of the instances.

THE CHAIRMAN: If there was no dispute, there would be no case.

MR. FRAWLEY: That is right, but the shipper would have that right, sir.

THE CHAIRMAN: That is what you are after?

MR. FRAWLEY: Yes.

THE CHAIRMAN: From the point of view of other shippers there is no objection?

MR. FRAWLEY: The complaint as against other shippers?

THE CHAIRMAN: As against the stop-off right? You see, in these other cases, like agreed charges, they militate against the other shippers.

MR. FRAWLEY: Yes, I see what you mean.

THE CHAIRMAN: Does this stop-off privilege militate against other shippers?

MR. FRAWLEY: Then my answer to that would be this, if it does, that every person who wanted to join in with the railways on the right to stop off, would have the right to be heard by the Board, and then the Board would determine the equities.

MR. O'DONNELL: He has that right now.

THE WITNESS: He has that right, we say.

THE CHAIRMAN: Then you would say no stop-offs should be given at all unless there is a hearing and the Board gives an opportunity to those who may be opposed to this particular stop-off being granted, being heard and so on.

MR. FRAWLEY: Do you go that far, Mr. Harries?

A: No, we don't think there should be a hearing in connection with the stop-off privilege unless someone says "I would like a stop-off privilege here, or some kind of in transit privilege" and the railways say "No, you cannot have it". Then we think he should be able to go to the Board and discuss the proposition with them in front of the railways.

THE CHAIRMAN: Then, what about other people who might consider they are injured by this particular arrangement in the stop-off privilege?

A: Well, they have that privilege today of complaining to the Board.

Q: Against the stop-off?

A: Yes. Today the position is the Board is only interested in it when it creates unjust discrimination. And we say we should go further, and the Board should have the power to put in an in transit privilege or stop-off privilege, as the case may be, if the shipper can make out a case. That is, just not leave it up to the railways.

Q: If any particular shipper wants it and the Board thinks he should get it?

A: Yes sir.

Q: Even if the railway says no?

MR. FRAWLEY: The last word should be with the Board, that is right.

THE CHAIRMAN: All right. We will adjourn until tomorrow morning.

---The Commission adjourned at 4:45 p.m. to resume on Wednesday, November 30th, 1949, at 10:30 a.m.

A.R.

Canada

ROYAL COMMISSION ON TRANSPORTATION

EVIDENCE HEARD ON

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56

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ROYAL COMMISSION ON TRANSPORTATION

OTTAWA, ONTARIO,
WEDNESDAY,
NOVEMBER 30th, 1949.

THE HONOURABLE W.F.A.TURGEON, K.C. LL.D. - CHAIRMAN

HAROLD ADAMS INNIS - - COMMISSIONER

HENRY FORBES ANGUS - - COMMISSIONER

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G.R.Hunter,
Secretary.

P.L.Belcourt,
Asst.Secretary.

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COUNSEL APPEARING:

F.M.Covert, K.C. G.C.Desmarais, K.C.	Royal Commission on Transportation
Hugh E. O'Donnell, K.C. H.C.Friel, K.C.	Canadian National Railways
C.F.H.Carson, K.C. F.C.S.Evans, K.C. I.D.Sinclair,	Canadian Pacific Railway
Wilson E. McLean, K.C. C.D.Shepard	Province of Manitoba
M.A.MacPherson, K.C. F.C.Cronkite, K.C.	Province of Saskatchewan
J.J.Frawley, K.C. H.G.Nolan, K.C.	Province of Alberta
C.W.Brazier	Province of British Columbia
F.D.Smith, K.C.	Province of Nova Scotia; Transportation Commission of the Maritime Board of Trade.
J.Paul Barry	Province of New Brunswick
F.R.Hume M.L.Rapoport	Canadian Automotive Transportation Association
R. Kerr	Board of Transport Commissioners
W.E.Darby, K.C.	Province of Prince Edward Island.

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OTTAWA, ONTARIO
WEDNESDAY, NOVEMBER 30,1949

MORNING SESSION

MR. HU HARRIES - Recalled.

EXAMINATION BY MR. FRAWLEY CONTINUED:

MR. FRAWLEY: Mr. Harries, when we adjourned last night you were at page 38 of your brief, and you were just beginning to discuss rate groups, which was the sixth of the matters other than the rate relationships between raw materials and finished products that you were calling to the attention of the Commission as being things which militated against the development of secondary industry in Alberta?

A. Yes.

Q. Will you continue now with what you want to say about rate groups, or the absence of them in Alberta?

A. Yes. Rate groups have a bearing upon industrial location.

Q. Would you perhaps right now, define a rate group for the Commission, so it will be clear what we are speaking of?

A. When you have a rate group, you grant the same rate from several different points of production to a market. That is, you may have a market, for example, which is 500 miles away from the general area of production. Within that area of production you may have three or four plants, producing a particular commodity, and there would be, let us suppose, a distance of 25 miles, or even 50 miles, between the factory which is located closest to the point of consumption, and the factory which is located furthest from the point of consumption. Ordinarily, using the

distance table you would find that the factory which is furthest from the consuming point, would pay a higher rate than the factory which is nearest. If you establish a rate group you would grant the same rate to that market from the farthest plant and the nearest plant.

THE CHAIRMAN: A sort of pooling, is it?

MR. FRAWLEY: Yes, something of that sort.

Q. What is the outstanding example of the rate grouping in Canada, as far as Alberta is concerned?

A. Well, the large groups which you have in central Canada, groups A and B, in which you have in many instances the same rate applying from say, Sarnia and Montreal, on a shipment to a point such as Edmonton.

Q. As I understand, the groups A and B run, just describing them very roughly, in a sort of triangle from Windsor and Montreal to Sudbury?

A. Yes, that is my understanding of it.

Q. And from all stations in that area known as groups A and B the same rate applies on shipments to Alberta, in any event?

A. In most instances, yes.

Q. Yes. All right, now then would you proceed to what you say about, as I say, rate groups or the absence of them in the Province of Alberta?

A. In the absence of production area rate groups, there is a tendency to concentrate industrial activity at one point. In our opinion, this is not desirable, more particularly in connection with agricultural processing plants. If one location in a general vegetable producing area, for instance, can obtain a lower rate than other locations slightly

[illegible] the consuming point, would [illegible]
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further away from the common market but in the same general producing area, an unwarranted advantage is conferred upon that location. We submit that the principle of grouping freight rates from the same production area to common market points should be a recognized feature of the freight rate structure.

Q. Now, will you give me an example of the absence of a rate group in Alberta?

A. Well, one example which we have is in connection with a vegetable processing industry in southern Alberta. In that regard we have a plant situated in Lethbridge, there is another plant in Taber and there is a third plant in Magrath.

Q. Now, will you give the Commission the relative distances apart in those three cases?

A. From Lethbridge the Taber plant would be a matter of some 45 miles.

Q. East?

A. East. And the Magrath plant would be somewhere in the neighbourhood of 25 miles south. Those plants are what --

THE CHAIRMAN: What about Taber?

MR. FRAWLEY: Taber is the point about 40 miles east of Lethbridge, my lord, and Magrath about 25 miles south of Lethbridge.

THE WITNESS: Yes.

MR. FRAWLEY: Q. Those are the three principal producing points of canned vegetables in southern Alberta?

A. Yes.

Q. Right?

A. And those plants are all situated in the irrigation district which centres about Lethbridge.

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[illegible] gathering [illegible]

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[illegible] some 45 miles.

[illegible]

[illegible] And [illegible]

[illegible] in the neighborhood [illegible].

[illegible] these plants are what --

[illegible]

MR. [illegible]: There is [illegible] miles

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[illegible]

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[illegible] of [illegible] in [illegible]

[illegible]

[illegible] these plants [illegible]

[illegible] district which [illegible]

When you look at the rates which apply on canned goods from Lethbridge and Taber and Magrath to a point such as Edmonton, you find that in particular the Magrath plant pays more, and that is because the rates are set up, are graded for distance. We believe that in order to diversify the canning plants in that area that it is a sound principle to permit points such as Taber and Magrath and Lethbridge to have the same rate to a point such as Edmonton, which would be in the neighbourhood of 325 miles from Lethbridge.

We do not say that the Magrath plant should have the same rate as the Lethbridge plant, because it may be, in making that rate group, that you would increase the Lethbridge rate slightly and reduce the Magrath rate slightly. It may be an average rate that would apply. But the effect of putting in that kind of a group would in our submission do away with the penalty which now accrues to a location at Magrath.

Now, it may be quite correct to say that when the people located at Magrath they were well aware of this situation. Whether that is a fact or not does not matter for our argument, because we say that we should encourage the diversification of these vegetable crops in southern Alberta. We don't want all the vegetable production taking place in the land around Lethbridge because it limits the diversification you can get in the more outlying districts, such as those centred about Magrath.

Then there is another example which was also brought to the attention of this Commission, and that concerns the rates which are paid by the shippers of butter from Alberta to Eastern Canada. You have butter production points at Calgary and Red Deer and Edmonton

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[illegible] field [illegible]

and Alix, to name the most important ones. When they ship to Eastern Canada they pay in most instances different rates. We suggest that on a shipment which travels some 2,000 miles that those rates should be the same.

Q. Let me interrupt you, and for the record I would like to say that that was discussed by Mr. Ellis Johnstone of the Central Alberta Dairy Pool at Calgary, and his evidence on this point will be found at pages 1613 and 1614 of the record.

THE CHAIRMAN: Who establishes these rate groups in Eastern Canada? Is that the railways themselves?

MR. FRAWLEY: Who established the rate groups in Eastern Canada? What would you say about that?

MR. EVANS: Some of them have been established by the railways and some by the Board. And, of course, that is what we say should be the case, if you have a case of this kind it should go to the Board.

(PAGE 10761 FOLLOWS)

[illegible] in most instances dif-

[illegible] suggest that [illegible] abutment which

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[illegible] that was discussed by Mr.

[illegible]

Mr. [illegible]: Who established the [illegible]

[illegible]

THE CHAIRMAN: If you have a case of that kind the Board should do the establishing?

MR. EVANS: With due deference, I am suggesting that this kind of a complaint is eminently a matter for the Board to deal with.

MR. FRAWLEY: I do not agree with that at all. I say it is an existing situation the same as the whole area from Sudbury to Montreal and Toronto, as the area in Alberta from McGrath, Lethbridge and Edmonton.

THE CHAIRMAN: I asked this question; who establishes these rate groups, and Mr. Evans says, "Sometimes the Board and sometimes the railway."

MR. FRAWLEY: That is true, my lord, and my friend says if you want a rate group in southern Alberta, go to the Board.

THE CHAIRMAN: What do you suggest? You recommend that the Board should take into consideration any fixed rates that is a consideration of grouping?

MR. FRAWLEY: We have brought these matters together on one or two pages at the back of the Brief, but we do say that if this Commission said that it was of the opinion that what was fair for eastern Canada would be fair to southern Alberta, something would be done about that.

MR. EVANS: My point, sir, is that it is impossible to expect your Commission to make a recommendation that the Board should establish rate groups until it knows all the facts upon which these rate groups are established. How can that come out of the mouth of the witness, who is not a practical transportation man? I do not know how.

MR. FRAWLEY: If Mr. Harries was not there, and I, simply as counsel, was calling this situation to the attention of the Commission, there is nothing profound about it. What is there profound about the fact that Magrath must pay two cents more to get into Edmonton. We call attention to this whole zone in eastern Canada. I am trying to build up Alberta industry. My friend is still thinking of me as a producer of wheat and livestock.

THE WITNESS: The reason, sir, that this suggestion is put in here is that the Board of Transport Commissioners, in our submission, does not recognize the principle of rate groups. It is a matter which they will consider in a certain situation. The railways may make a rate group if they wish. We say that it should be a recognized principle of the freight rate structure, and we bring these examples to the attention of this Commission simply to indicate that there is in Alberta a problem of this kind.

THE CHAIRMAN: Q. When the Board is making a freight rate structure the consideration of this should be brought before that Board?

A. Yes.

Q. You do not expect the Board to say that such and such a condition exists in Alberta or in any other province; someone must bring it to the attention of the Board?

A. Yes.

MR. FRAWLEY: If the principle has been established that it is the proper thing, that is why we regard this Commission as being concerned with the principle.

Q. Passing on to the next matter, Mr. Harries, what do you say?

A. There are several aspects to the problem of Developmental Temporary Rates which are related to Industrial location. We are deleting the words "and Temporary Rates" which are related to industrial location. In the first instance we submit that rates granted to a new industry should be on the same basis as the rates to comparable industries in other parts of the country. I might suggest there that the matter will be dealt with more fully in the brief which follows this one dealing with rate principles. If special circumstances exist which make it necessary or desirable for a new industry to have a lower than normal rate, the making of such a rate should be the concern of the railways, the industry and the Board. Developmental rates when made should be limited in time otherwise industry becomes adjusted to a lower than normal rate which under present conditions may be removed arbitrarily.

THE CHAIRMAN: Q. You say that the rate should be limited in time; that they should be made for a limited time only?

A. Yes, what we have in mind is that if someone has a marketing problem and they want a rate to help them get started, then they should be able to go to the railways and negotiate for that rate, and then have the rate approved by the Board, but we feel that that rate should have a time limit on it because of the fact that the industry becomes adjusted to that particular freight rate charge and when it is removed, probably when they are not expecting it, it creates a difficult situation for them. We have in mind in this particular regard the pure bred livestock rate. We would look on that as a developmental rate. It was made

to assist the pure bred livestock industry, but it was kept in there year after year, as I believe Mr. Salter said in his evidence. It was there from 1918, and all of a sudden it is removed. We are not asking whether or not the normal rate is the one that should be applied in that case, but we do say that if it was a developmental rate in the first instance it should be recognized by both the railways and the shippers as that, and it should be put in for a certain period of time.

Q. For a certain period only?

A. Yes. They might have to state in this rate, "we will give you that cheap rate for five years, and at the end of five years we are going to put it up 25% or put it back to normal", and then the livestock men would not find themselves in the position that they presently are in, namely, that they looked at this developmental rate as a normal rate. The change comes as a rather rude shock to them.

Q. You mean that if they had this notice of several years they would build up their industry to cope with the higher rate when it came along?

A. Yes, they would be warned of this fact that this is only a temporary situation. We think the same thing applies to other industry. We stress this, that the matter of the development rate [illegible] essential between the shipper and the railways, and it would be, in our opinion, filed with the Board. We do not want the Board to deal with this unless the rate set has expired, and the one who wants the rate extended should have an opportunity of entering into another rate.

COMMISSIONER ANGUS: You want a guaranteed minimum time?

A. I do not know that that would not be a matter that might be taken care of in a particular situation. We would assume that if they set three years it would stay in for three years, and it would not be removed in that time.

THE CHAIRMAN: Q. You are not afraid of what would happen at the end of three years?

A. No, I think the individuals that had the rate would be in a position to plan for that. I am thinking of an industry that would have a marketing problem when it started out.

Q. We used to hear that very same kind of thing as to customs tariffs?

A. Yes, it is exactly the same thing.

Q. They remained infants a very long time?

A. They never put a time limit on those.

COMMISSIONER INNIS: Q. Do you feel that the railways are not sufficiently alert from the standpoint of new industry as regards freight rates?

A. No, I think the railways are alert but I do feel that the shipper, if he gets a special rate, should recognize it as such.

THE CHAIRMAN: Q. But you have the discretion of the Board to renew it after it expires?

A. Yes.

MR. FRAWLEY: Q. Mr. Harries, will you pass to Paragraph 3 at the beginning of page 40, and will you say in a word what the purport of this part of the brief is?

A. May I just make a comment, Mr. Frawley, that the last paragraph on page 39 dealing with temporary rates does not form a part of our submission. We are asking to have that deleted. It is dealing with the temporary rates on page 39. In Part III of this brief, which commences at

page 40, we have attempted to discuss the relationship between carrier regulation and industrial location by reviewing certain judgments of the Board, which after studying, we feel they have a distinct bearing in this matter, and also in this section we have taken several pages to discuss what we conceive to be the attitude of railway management in connection with industrial location.

I would like to start at Section A. The place that railroad policies and management occupy in the field of industrial location is an important one. An initial and realistic assumption is that the railways mae make a determined effort to encourage the establishment and operation of industry on their lines. The primary object of such railway enterprise is, of course, to obtain paying traffic and incidentally to sell property and other ancillary services. Railroad management is therefore concerned with industrial location to the extent that such activity will increase their net return. The question naturally arises therefor: Is there a necessary and acceptable relation between this objective and the broader objectives of regional and national economic policy? If there is, it may be safely left to the railways to freely exert their influence in the field of industrial location because what is to their advantage is to the general good. If this necessary relation is not present then conflicts between railway objectives and the broader needs and aims of the economic body will emerge.

On a priori grounds the assumption that railway policy is in fact complementary to what may be termed national objectives must be suspect. The railway, after all, is concerned with moving goods; in the general the more goods which are moved, and the greater the distance such goods are

moved, the greater will be the revenue, and presumably the profit, to the railway. The railways, it may be expected, will act in their own interest. Realizing this, however, merely points to the folly of assuming that industrial location is a matter which can safely be left to the working of railway policy alone.

A recent case before the Board of Transport Commissioners provides a practical illustration of the consequences of such a philosphy. The Canadian National Railway, the Canadian Pacific Railway Company and the McColl Frontenac Oil Company Limited under the provisions of the Transport Act, 1938, applied to the Board of Transport Commissioners for approval of an agreed charge. The substance of the arrangement was that the railways would carry petroleum products from the lakehead to certain McColl Frontenac distributing points in Saskatchewan at a lower than normal rate. The petroleum products to be carried originated at the Montreal refinery of McColl Frontenac and were processed from foreign crude oil. These products would move to the lakehead by boat or rail and then westward on the Agreed Charge.

Then there is a letter from Mr. F.C.S. Evans, Vice-President and General Counsel of the Canadian Pacific Railway to the Secretary of the Board of Transport Commissioners, dated the 15th of May, 1947 giving the reason for making the agreed charge. In particular, we would bring to the attention of the Commission paragraph (d) on page 2 of the letter, which shows the reason for making these agreed charges.

(Page 10772 follows)

MR. FRAWLEY: It may make the sub-paragraph a little more clear if one looks at the complete letter itself which is reproduced at page 62 just to complete the context. That is all we have in mind, the context of sub-paragraph (d). The whole paragraph reads:

"The object of the proposed Agreed Charge between the Railways and the McColl-Frontenac Oil Company Limited is clearly set forth in Exhibit No. 1 of the application of 24th March, and may be briefly summarized to be as follows:-

Then follow four paragraphs and there is no reason why I should not read them all:

"(a) To secure to the Railways the long haul on gasoline and other refined petroleum products from the Head-of-the-Lakes to Saskatchewan account McColl-Frontenac Oil Company Limited, which traffic had heretofore moved only in small volume to Saskatchewan, compared with the short haul of crude oil from the international boundary at low rates.

(b) to increase the net revenues of the railways.

(c) to prevent the trucking of refined petroleum products distributed by the McColl-Frontenac Oil Company from the refineries at Regina and Moose Jaw to points in the Province of Saskatchewan, or

(d) to avoid the construction of a refinery by the McColl-Frontenac Oil Company Limited at a point in the Prairie Provinces which would result in the railways receiving only low revenues on the inbound crude oil and the probability of losing the outbound traffic to truck transportation."

THE CHAIRMAN: What page in the brief is that?

MR. FRAWLEY: The complete letter is at page 62 and 63 of this brief.

MR. O'DONNELL: You might make a note of the fact that the Judgments dealing with the matter is Exhibit 5, my lord, in this present case. You remember we filed the Judgments in Winnipeg.

MR. FRAWLEY: The official citation of the Judgments, sir, is 39 J.C.R.& R. of the Board of Transport Commissioners at page 1.

THE CHAIRMAN: Yes, you give it at the bottom of page 40, but what happened?

MR. FRAWLEY: The Agreed Charge was approved, I understand, as a result of the application.

THE CHAIRMAN: Who opposed the granting?

MR. FRAWLEY: The Imperial Oil Company opposed it, the Anglo Canadian Oils Limited and the Confederated Co-operative and the North Star Limited. I am reading from the appearances in the report of the Judgment. I think the official citation is 39 J.O.R.& R. 1.

THE CHAIRMAN: Did the Provinces of Saskatchewan and Alberta oppose it?

MR. FRAWLEY: No, whether the Province of Saskatchewan had any notice of it I do not know, but they were not represented.

THE WITNESS: The reason we bring this particular case to the attention of the Commission is simply to indicate that what might be good policy for the railways, is not necessarily good policy for the economic body, in this particular case the Prairie Provinces. We would like to stress that this may beand undoubtedly is a very excellent stand for the railways to take, that this agreed charge would profit them and so on, but we merely offer it as an illustration of the discussion which we have on page 40 where we say it is not correct to assume that railway policy is in fact complementary

to regional or national policy.

MR. FRAWLEY: Now, passing to a discussion of the Board of Transport Commissioners in relation to industrial location.

THE WITNESS: That is Section B - The Board of Transport Commissioners. The attitude and actions of the Board of Transport Commissioners in the matter of industrial location may be conveniently considered under two headings. First, the relation between rates on raw materials and rates on finished products. I may say that that starts at page 42 and goes through to the top of page 50. Secondly, market rates and market competition, and the discussion there starts at the top of page 50 and continues through to page 53. Dealing first with the relation between rates on raw materials and rates on finished products, I may just summarize our submission in this connection by stating that in the Kemp Manufacturing and Metal Case the Board took the position that it is natural to move raw materials rather than finished products.

MR. EVANS: Where?

MR. FRAWLEY: My friend will have ample opportunity to cross-examine; we are putting to the Commission what we are summarizing.

MR. EVANS: I will agree.

THE WITNESS: That will be found at page 42 of our brief. Then in the Dominion Sugar Case which we have an extract of at page 43, it is made plain that the relationship between raw material rates and finished product rates is left to the railroads. And then in the International Paper Company Case the principle that the railways may make a lower charge on a raw material which moves to a processing point on their line and on which they receive outward haul, that they may make that lower

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rate whereas in another case moving the same product from which they do not get the benefit of the outward finished product haul, that they are not necessarily compelled to make that low rate.

THE CHAIRMAN: On page 42 in that citation you have of Mr. McLean's remarks he says "Whether a centre shall have a distributing territory tributory to it, and what that territory shall be, is something which in general, in my opinion, lies outside the scope of the Board's functions". What is your contention here, that the Board's functions should be enlarged if necessary in that respect and that they should adjust rates according to economic requirements in the locality? Is that what you want?

A. We say in these matters generally they should take a more active role and in order to indicate what we mean by "a more active role" we have made three specific suggestions in our summary, sir.

Then, in the two livestock-meat cases which we discuss briefly, starting at the bottom of page 43 and continuing through to page 45, we note that in the Provinces of Alberta and Saskatchewan et al against an application, which was, I may say, an application to have the Winnipeg relationship between meat and livestock applied throughout other packing centres in Western Canada, that application was rejected because the learned Chief Commissioner was not convinced that the rate relation complained of was discriminatory as far as the western plants were concerned. He also felt that establishing of western plants at the Winnipeg relation would be impractical. That is the first case. In the second case, and that is Gainer's Case, the learned Chief Commissioner decided the question which was similar in a sense, upon a basis of the

rate construction used for international shipment and we say with deference to the learned Chief Commissioner that after clearly stating what the problem was he ignored it in deciding whether or not the contention was to be allowed.

In the first of the above cases reference was made to several Judgments of the Interstate Commerce Commission. In view of that we have on pages 46, 47 and 48 recorded a review of the attitude of the Interstate Commerce Commission in the matter of meat-livestock rates.

MR. FRAWLEY: I think you might start to read at page 46 Mr. Harries?

A. In 1894 the Interstate Commerce Commission recognized that the competition between the transportation of livestock and of meat made the relationship between the rates a matter subject to the clause in the law forbidding undue preference and prejudice. It said "In contemplation of the Act, as we interpret it, these competitive articles (live animals and products) are to be treated as one subject by the carriers in providing for their transportation".

Q. You are referring to a case Squire and Company v The Michigan Central Railway Company reported at 4 I.C.C. 611 on page 628?

THE CHAIRMAN: The words "live animals and products", does that mean live animals and processed meat?

A. Yes sir.

Q. Well, there is some statute then in force in the United States which says that in such cases these competitive articles, that is the raw material and the

finished product are to be treated as one subject by the carriers in providing for their transportation. That is what you quote here.

MR. FRAWLEY: I take it to be an interpretation, sir, by the Interstate Commerce Commission of the Interstate Commerce laws.

THE CHAIRMAN: Are you then suggesting that the law in Canada should be made the same?

MR. FRAWLEY: Well, as far as statutory changes are concerned that raises the whole question as to how it is best to bring this about.

RHE CHAIRMAN: You have some specific recommendations about it?

MR. FRAWLEY: Yes, we have two pages of specific recommendations.

THE WITNESS: This means that there should be a fixed relationship between the rates on meats and the rates on livestock moving into interstate commerce.

That was the first case that I was able to find where the Commission set out its ideas on this particular subject.

THE CHAIRMAN: Are we to be told later what those words mean--"a fixed relationship"?

A. Yes sir.

Q. Because I can see they are important.

A. In 1911 the Commission reaffirmed this view but expressed an unwillingness to say what the relationship should be. In 1915 -

Q. Pardon me. You mean the American Interstate Commerce Commission?

A. Yes sir. In 1915 in the Eastern Livestock

Case 36 I.C.C. 675, the Commission adjusted both the meat and the livestock rates but did not commit itself as to whether or not the resulting relationship was absolutely correct.

Finally in 1928 the Commission in the Eastern Livestock Cases of 1926, 144 I.C.C. 731, abandoned any hope of fixing the relationships. So they said it was impossible, as I read the Cases, to have a fixed relationship between the rates on meat and the rates on livestock.

Q. Do you agree with that?

A. Yes, I do agree that you cannot have an absolutely fixed relationship. And these cases all dealt with the Eastern Movement and it is of interest to note that although the Commission abandoned the hope of fixing a constant and definite relation between meat and livestock, the most important adjustment in the United States in this regard, and that is the Chicago-New York adjustment, has in fact been almost constant for 30 years.

In Westbound Rates on Meats 210 I.C.C. 13 decided in 1935, the Commission found that the rates from interior points to the coast (and that would be to the Pacific Coast) although generally much higher on meat tha on livestock, were not prejudicial, and they approved the existing scale of charges. It might have been concluded from this judgment that the Commission had abandoned the thought of treating meat rates and livestock rates as related in any way and that henceforth any call for adjustment would be refused. In 1945, however, the decision in the George A. Hormel and Company Case was handed down. In this Case the Commission reviewed and clarified previous judgments on the matter of meat

and livestock rates. And the general conclusions in this Hormel Case are given as follows, and I will read it if I may.

MR. FRAWLEY: Yes.

A. The Commission said:

"The assailed rates do not permit free movement of meats from the midwest to the Pacific coast. In the case of the products of hogs this is due almost wholly to the fact that the rates on meats are excessive as compared to those on the live animals. From Omaha to Los Angeles, for example, the rate on fresh meat is about 239 per cent. of that on the live animal, whereas in the opposite direction from Omaha to New York the rate on fresh meat is only 136 per cent. of the rate on the live animal. The relation to New York was prescribed by us on transportation standards after extensive litigation and has been observed for many years. The higher relation to Los Angeles is due partly to our prescription of low rates on the live animals and partly to the maintenance by the carriers of high rates on meats. The west-bound relation between the two has never been specifically prescribed by us as it has to New York. There is no logical reason, however, for a greatly different relation west-bound than east-bound. The same intensive competition exists between the movement of live animals and carcasses in either case, the only difference being that in one case the movement is west-bound while in the other it is east-bound. The Omaha packer

"could not reach New York with his meats at rates 249% of those on the live animals, nor can he do so on that basis to Los Angeles. The rate on packing house products from Omaha to Los Angeles is 191.7% of the rate on the live animal, but to New York it is only 99.7% of that rate.

Although most of the complainants do not here request what they call a fixed relation between the rates on the live animals and those on the dressed carcasses of such animals, each of them has made it plain that a reasonable maximum relation between the two must be observed if the packing industry in the Mid West is to sell any of its products on the Pacific Coast in competition with the products of live animals shipped from the Mid West and slaughtered on the Pacific coast. The rates proposed by the title complainants would result in a relation to the rates on live animals from Omaha to Los Angeles, for example, of about 125% on packing house products, and 150% on fresh meats. These relations are 25% higher on packing house products and 14% higher on fresh meats, than the relations prescribed by us from Omaha to New York. The Omaha intervener specifically requests prescription of the New York relation on fresh meats to Los Angeles, contending that if its competitors' rates on live animals have been measured by a minimum standard, Omaha's rates on meats must also be measured by the same standard to ensure

"freedom of movement of meats. We need not elaborate on this contention as the live stock rates are not in issue and any deficiencies in those rates cannot be adjusted on this record."

Then they go on to say:

"The Mid West is not here seeking, for example, to transport California hogs to the Mid West for slaughter and then ship the meats produced therefrom back to California, but merely to intercept and slaughter in the Mid West some of the Mid Western hogs moving past the doors of its packers for slaughter in California. Over 500,000 Mid Western hogs move through the Denver area annually for the Pacific Coast, but the record shows that none of these can be slaughtered at Denver under the present level of rates on meats from that city to the Pacific Coast."

Then the Commission went on in this case, to alter that adjustment to reflect a more favourable relationship between the rate on meat and the rate on livestock.

THE CHAIRMAN: Now do you say that our Board of Transport Commissioners does not enter into considerations of this kind?

MR. FRAWLEY: They have had an application, as the brief points out,two, probably, and they have refused the application.

MR. EVANS: They refused them, I think my friend should say, in one instance, on the ground that the Chief Commissioner writing the judgment was not convinced of the propriety or necessity of making this relationship.

MR. FRAWLEY: That is practically word for word

what we state in this brief.

THE CHAIRMAN: The difference I have in mind is this, that our Board say that in fact it is none of their business to do this thing or do they hear it and simply decide one way or the other?

MR. EVANS: There is no question of their power to do it.

THE CHAIRMAN: You see, they have pointed out, I know, and we have had several references here and there, where the Board has disclaimed any responsibility for doing this.

MR. EVANS: Yes, sir, they have taken the position that they have no power to equalize the cost of production. That is, of course, a very different thing.

THE CHAIRMAN: But they have not always used that precise language. It is much broader than that. They talk about taking care of industry.

MR. FRAWLEY: Yes, the expression which your lordship may have in mind is that they have said they are not the arbiters of indistrial policy which is cited in the National Dairy Council case in 1922. They have said that, or like things, several times.

THE CHAIRMAN: Well, I want to know whether in matters of this particular kind before our Board, our Board has taken the same view of its powers as the Interstate Commerce Commission has of its powers in the United States?

(Page 10787 follows)

MR. FRAWLEY: Q. Now, what do you say about that, Mr. Harries?

A. We would say that they have not taken the same view, sir, because you take this first case, that is, the Provinces of Alberta and Saskatchewan, the Board said, first of all - -

THE CHAIRMAN: That is the 1928 case? You see, I notice, as Mr. Commissioner McLean in one of those cases -

MR. FRAWLEY: That was in the Kemp Case, sir.

THE CHAIRMAN: It is at page 42.

MR FRAWLEY : Yes, sir.

THE CHAIRMAN: You observed what he said at the time. It is true that is on a different subject, but in general I think it is to the same effect.

"Whether a centre shall have a distributing territory tributory to it, and what that territory shall be" and so forth.

MR. FRAWLEY: You see, my lord, he says - -

THE CHAIRMAN: "In my opinion lies outside of the scope of the Board's functions."

MR. FRAWLEY: The next two sentences, my lord, if I may call to your attention.

THE CHAIRMAN: He says:

" It is a matter which must be left to general trade conditions to adjust."

MR. FRAWLEY: And then the next sentence.

THE CHAIRMAN: "The Board becomes interested in it only because of some complaint of discrimination or unreasonableness of rate."

MR. FRAWLEY: Discrimination or unreasonableness, that is all. Now that is the restricted view which the Board has of its powers with respect to which we make complaint now

to this Commission.

THE CHAIRMAN: I suppose your submission is that if the Board has not sufficient powers to enter into these considerations today the power should be given to the Board.

MR. FRAWLEY: The Statute should say so.

THE CHAIRMAN: And if the Board has the power and is not exercising it, which they ought to, a recommendation should be made that those powers should be exercised. Is that right?

MR. FRAWLEY: Yes, sir.

COMMISSIONER INNIS: Is there not another point? These desisions were in 1928 in both cases?

THE WITNESS: Yes sir, they arose from the General Freight Rates Inquiry.

COMMISSIONER INNIS: During that period, as I understand, the Interstate Commerce Commission had taken a similar position. Now, in 1945 you suggest the Interstate Commerce Commission has changed its position?

THE WITNESS: Yes I do.

COMMISSIONER INNIS: Do you think the Board would change its position now if you went back and said this is the position which has been reached by another body, by which they had been influenced.

A. That might well be the case, sir, but we would like to point out that our suggestion was not the suggestion which was made and the matter which had been decided in the 1927 case, that is the Alberta and Saskatchewan case. What they said was that it was impractical to give the same percentage relationship between rates at Calgary and Edmonton and Saskatoon as prevailed at Winnipeg. In fact, and we quote them here, they say that

"As a matter of tariff construction this would seem to be impracticable."

MR. FRAWLEY: Q. You are reading from the bottom of page 44?

A. Yes.

COMMISSIONER INNIS: This Hormel case does not run on all fours?

A. No, not with the application that was made here, because they went in and asked for this relationship to be established at all points, and the Board said as a matter of tariff construction that is not practicable. And then they said "Well, let us look at the livestock rate, and let us look at the meat rate. Now, are those rates reasonable per se? Are they discriminatory?" That is, they didn't look at the relationship, they looked at the individual rate. And they certainly had power to look at the relationship, and we would never suggest they had not got the power. But they took the attitude that they would not consider this type of general relationship, and that is, at least in our submission, that is what happened.

THE CHAIRMAN: I am interested in the statement which is quoted on page 46, the Interstate Commerce Commission's remarks on a certain occasion where they refer to some Act, and they say:

"In contemplation of the Act, as we interpret it, these competitive articles, live animals and products, are to be treated as one subject."

THE WITNESS: Yes.

Q. Have you any other reference to this United States Statute than what you have given here?

A. No, sir, that would be the Act to regulate Interstate commerce.

Q. You have not the specific clause in the Interstate Commerce Act?

A. We have no such provision here, no.

MR. FRAWLEY: I think we had better bring that case to the Commission and discuss it a little more fully.

COMMISSIONER INNIS: You see, there is one thing if there is a statute in the United States prescribing certain conditions and no such thing here. It is another case if the statutory laws here are the same as in the United States.

MR. FRAWLEY: That is right, sir.

THE WITNESS: I believe, and we can check this, that what they are talking about there is Section 1 of the Interstate Commerce Act.

THE CHAIRMAN: Well, at any rate, bring it.

MR. FRAWLEY: That is right.

THE CHAIRMAN: Because both these bodies are statutory bodies and they must obey the statutes.

MR. FRAWLEY: In other words, we might put our case for a recommendation on the ground that the statute must be changed, or on the ground that the statute is there and there should be a recommendation or a sort of directive from this Commission as to how it should be used.

MR. O'DONNELL: You can get relief, if you make out a case, by going to the Board.

MR. FRAWLEY: We want a recommendation of this Commission. We won't be rushed off to the Board until we can get some recommendation from this Commission, if that should be our good fortune.

THE CHAIRMAN: All right, but don't forget that American statute.

MR. FRAWLEY: No, I certainly will not.

Q. Now, Mr. Harries, you were going on to page 48?

A. Yes. Going on now, we would like to just discuss Table 6 at the bottom of page 48 for a moment. And I may say, Dr. Innis, that the rates which you were inquiring about yesterday I think are found here.

COMMISSIONER INNIS: I see.

THE WITNESS: This Table discusses the meat livestock ratio and the packinghouse products, livestock products, from certain selected points to Vancouver and to Toronto and to Winnipeg. And we have drawn this Table up because the percentage, the problem of percentage relationship was discussed in connection with the Interstate Commerce Commission decisions that we referred to. And take, for instance, the movement of livestock from Edmonton to Vancouver, we find in the first column there that the livestock rate is 54¢.

Then, moving over to the third column we find that to move meat from Edmonton to Vancouver the rate is $1.15 a hundred. So that the meat rate is 213 per cent. of the livestock rate.

And then looking at the fifth column, the packing-house products, we find that the rate from Edmonton to Vancouver in that instance is $1.04, and relating that $1.04 - -

THE CHAIRMAN: Q. Pardon me, what are the packing-house products you have in mind?

A. Smoked meats and hams and lard.

Q. You distinguish them from Meat. You have

livestock rates, meat rates, and packing-house rates, is that right?

A. Yes sir, they are distinguished in the tariff. You have fresh meats - -

Q. The meat rate means fresh meats?

A. Yes sir. And the relationship between the $1.04 rate on the packing-house products and the 54 cent rate on the livestock is 193 per cent.

Then to take another example: The rate from Winnipeg to Montreal or Toronto on livestock is $1.03, that is in the first column, and the rate on meats moving from Winnipeg to Montreal or Toronto - -

MR. FRAWLEY: That is the bottom of the first column.

A. In the bottom of the third column is $1.46. So that the meat rate is 142 per cent. of the livestock rate. That could be compared to the 213 per cent. relationship that exists on moving meat from Edmonton to Vancouver.

And we go on then at the top of page 49 to say that:

"It is apparent from Table 6 that there is a wide discrepancy between the relations which are in effect at Winnipeg on eastern movements and those which are in effect from other points to Toronto". And of course there is also a wide discrepancy between the relations which apply from Edmonton to Vancouver, as compared with the relation which applies from Winnipeg to Toronto.

At this point I would like to draw the attention of the Commission to a study done by the United States Department of Agriculture in their Bureau of Agricultural

Economics. This study is entitled "Relationship between the Rail Rates on Livestock and on Meats". It was done by James C. Pettee, formerly Assistant Transportation Economist.

COMMISSIONER INNIS: Q. These are the inserts that you were going to give us?

A. Yes sir. And the study is published in June 1943. And with regard to the matter of the critical relationship the study has the following to say:

"As indicated at the outset of this summary, the rate relationship and the weight yield from slaughter determine whether meat will move in live or dressed form. To test the relative rate relationships, it is necessary to derive data showing a critical rate relationship. A critical rate relationship may be defined as one which does not favour the movement of either meat or livestock. Stated more explicitly, a critical rate relationship exists when the cost of shipping livestock (the livestock rate times 100 pounds of livestock) is the same as the cost of shipping the meat yielded from the slaughter of a corresponding amount of livestock (the meat rate times the yield of 100 pounds of livestock). If meat rates are relatively higher than the critical relationship, the movement of livestock is favoured; if lower, the movement of meat is favoured.

Although there is variation in the yield ratios from one packing plant to another in the slaughter of animals of a given species, discernible limits exist within which the bulk of slaughter is confined. The interrelationships between the rates and the weights

and the weights are complicated by the fact that more products than one, often taking more than one rate, are obtained from the slaughter of livestock. For this reason, it has been necessary here to make the over-simplified assumption that packinghouse products move to the same markets as fresh meats and in the relative quantities indicated by the averaged data shown in Table 4."

We have not included Table 4 here, but he simply gives dressing percentages and so on for different plants.

And then in Table 5 he gives the critical relationships of fresh meat and packinghouse product rates to livestock rates in 1941. And looking at the cattle, and directing attention to the fresh meat situation, we find that he says the average critical relationship would be a case in which the fresh meat rate is 164.6 per cent of the livestock rate. And then he says that there is some variation on that, and he suggests the minimum percentage relationship would be 169.3 and the maximum 159.0

So that for this particular situation, if you had a meat rate which was greater than 169 per cent of the livestock rate, then you would expect the livestock movement to be favored.

And then the next table, for the balance of the table, deals with the other fresh meat rates on hogs and sheep and lambs and on packinghouse products. And as we say towards the bottom of this page of our insert:

"Comparing the critical relationships which have been derived in this study we find that as far as Alberta is concerned the rates to Vancouver and

to Winnipeg are far above the minimum percentage relationship" which he derives in this Table 5. The rates to Montreal and Toronto from Alberta are at the average limit. If I just went back to Table 6, and we showed there that from Edmonton to Vancouver, for instance, the meat rate was 213 per cent of the livestock rate, and then Table 5 which we have just quoted, indicates that at any time the percentage relationship is greater than 169 you would expect the livestock to move.

And I would like to state specifically that we do not contend that this study, of which Table 5 is an extract, which is based on American data and which is premised upon dressing percentages and fresh meat and packinghouse products relationship which exists there, and which may not pertain to our situation, is absolute proof that there is a faulty relationship as far as western Canada is concerned, but we simply presented that information here to indicate that one study - in fact the only study that we know of, where the critical relationship is derived - indicates you have 169 per cent. as a minimum critical relation, and we have found a rate of 213 per cent., or a relationship, pardon me, of 213 per cent. from Edmonton to Vancouver.

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Insert for p. 49 - Industrial Location Brief

A study done by the United States Department of Agriculture offers some interesting suggestions in connection with these meat livestock ratios. (Relationship between the Rail Rates on Livestock and on Meats, by James C. Pettee, formerly Assistant Transportation Economist, June 1943) With regard to the matter of the critical relationship, the study says the following:

"As indicated at the outset of this summary, the rate relationship and the weight yield from slaughter determine whether meat will move in live or dressed form. To test the relative rate relationships, it is necessary to derive data showing a critical rate relationship. A critical rate relationship may be defined as one which does not favour the movement of either meat or livestock. Stated more explicitly, a critical rate relationship exists when the cost of shipping livestock (the livestock rate times 100 pounds of livestock) is the same as the cost of shipping the meat yielded from the slaughter of a corresponding amount of livestock (the meat rate times the yield of 100 pounds of livestock). If meat rates are relatively higher than the critical relationship, the movement of livestock is favoured; if lower, the movement of meat is favoured.

Although there is variation in the yield ratios from one packing plant to another in the slaughter of animals of a given species, discernible limits exist within which the bulk of such slaughter is confined. The interrelationships between the rates and the weights are complicated by the fact that more products than one, often taking more than one rate, are obtained from the slaughter of livestock. For this reason, it has been necessary here to make the oversimplified assumption that

[illegible] United States Department of

[illegible]

[illegible] between [illegible]

[illegible]

[illegible] of the critical [illegible] relationship, the [illegible]

[illegible] the count of that summary, the [illegible] yield from slaughter determine [illegible] live or fenced firm. [illegible] relationships, it is [illegible] relationship. A critical rate [illegible] one which does not favour the [illegible] livestock. Stated more explicitly, a critical [illegible] exists when the cost of shipping livestock [illegible] 100 pounds of livestock) [illegible] the meat yielded from the slaughter [illegible] of livestock (the meat rate times the yield [illegible] percent). [illegible] the critical relationship, the [illegible] of [illegible] found, and [illegible] of meat [illegible] the [illegible] from [illegible] in the [illegible] animals [illegible]

[illegible] relationships between the [illegible] by the fact that [illegible] more than one rate [illegible] For this reason, [illegible] the over-simplified assumption that

Insert for P. 49 - Industrial Location Brief

packinghouse products move to the same markets as fresh meats and in the relative quantities indicated by the averaged data shown in Table 4. It is further assumed that the fresh-meat rates are 150 percent of the rates of packinghouse products. The influence of other products of slaughter is omitted as being of little importance."

TABLE 5 - CRITICAL RELATIONSHIPS OF FRESH MEAT AND PACKINGHOUSE PRODUCT RATES TO LIVESTOCK RATES - 1941

Specie	Fresh meat rate = 150 percent packinghouse products						Packinghouse products not shipped - minimum yield
	Fresh meat			Packinghouse products			
	Maximum	Average	Minimum	Maximum	Average	Minimum	Fresh meat
	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Cattle . . .	159.0	164.6	169.3	106.0	109.7	112.9	190.8
Hogs	160.4	174.3	189.6	106.9	116.2	126.4	
Sheep & Lambs	183.7	193.3	200.7	122.5	128.9	133.8	207.9

Comparing the critical relationships which have been derived in this study we find that as far as Alberta is concerned the rates to Vancouver and to Winnipeg are far above the minimum percentage relationship. The rates to Montreal and Toronto from Alberta are at the average limit. While we would not contend that this study which is based on American data and which is premised upon dressing percentages and fresh meat and packinghouse products relations which may not pertain to our situation, we think that it is nevertheless of interest.

Then also in the insert we have brought Table 7 up to date and I would ask that Table 7 in the insert replace what we have on page 49 now.

MR. FRAWLEY: Table 7 as it was originally in the Brief stopped at 1941. We have now been able to bring it up to 1948.

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TABLE 7 [1]

PERCENTAGE DISTRIBUTION OF LIVESTOCK SLAUGHTERING IN THE PRAIRIE PROVINCES 1916 - 1948

Year ended March 31	Hogs			Cattle and Calves			Sheep & Lambs		
	Man.	Sask.	Alta.	Man.	Sask.	Alta.	Man.	Sask.	Alta.
1916	42	9	49	47	5	48	38	11	51
1920	46	14	40	45	16	39	42	5	53
1924	48	6	46	65	3	32	50	1	49
1928	49	10	41	64	8	28	50	6	44
1932	48	11	42	63	10	27	56	7	37
1934	41	17	42	62	13	25	56	12	32
1936	38	18	44	62	13	25	56	11	33
1938	36	17	47	62	16	22	55	15	30
1940	38	11	51	71	9	20	59	13	28
1942	33	18	49	59	11	30	60	12	28
1944	36	21	43	57	14	29	56	13	31
1946	32	20	48	52	18	30	57	16	27
1948	30	17	53	52	14	34	46	13	41

1 The Direct Marketing of Livestock, Marketing Service, Economics Division, Dominion Department of Agriculture, Publication 726, page 9.

Q. Going on now, Mr. Harries?

A. Yes. Well, then, that concludes our observations in connection with the raw material finished product rates.

Then we go on to market rates and market competition, and we state that:

> "The manner in which the Board of Transport Commissioners has disposed of cases involving rates to meet market competition and rates to enable an industry to successfully compete within territory adjacent to it are of particular concern in the matter of industrial location."

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(Page 10807 follows)

On pages 50, 51,52 and 53 we note seven cases which, we think, are of interest here. I do not think I will read what we said there but just go on to the concluding paragraph on page 53, where we say:

The Board has held on many occasions that it is not the "arbiter of industrial policy". If freight rates have a significant effect upon industrial location, the effect of such a decision by the Board is to leave these matters within the competence of the railways. In our view, for reasons made clear above, the railways are unacceptable as arbiters of industrial policy. We submit that the Board should assume an active role in these matters.

What we say is that if the Board is, in fact, not the arbiters of industrial policy, then the railways are the arbiters of industrial policy. We are not satisfied to leave that situation, and suggest that the Board should take an active role in these matters, and the manner in which we suggest that that role can be made more active is found in certain of our recommendations which follow on pages 54 and 55.

MR. FRAWLEY: Q. You begin the recommendations in the first paragraph?

A. There are some alterations in paragraph A, and I will read there. These are our recommendations. In the matter of raw material and finished product rates, it is our submission that the rate relations should not discourage producer location.

THE CHAIRMAN: What is the change?

MR. FRAWLEY: The first sentence now reads: "In the matter of raw material and finished product rates, it is our submission that the rate relations should not discourage producer location" and then there is the next sentence..

THE CHAIRMAN: Did you say "should not discourage"?

MR. FRAWLEY: Yes, my lord.

THE CHAIRMAN: Q. What is the difference between a rate that encourages and one that does not discourage?

A. If it does not discourage, it can be neutral or passive. We thought this might make it clear.

MR. EVANS: I think that it is pretty difficult to argue that the Board should be active in saying that the rates were passive.

THE WITNESS: Continuing: In any instance where a processor or manufacturer feels that the rate relations offenc ----

THE CHAIRMAN: Q. Supposing that you had a specific question as to livestock rates, would you be able to fix a figure as to the agreed neutral rate?

A. Yes, we couldn't come right on it but there would be essentially a reasonableness within which we can find ourselves.

In any instance where a processer or manufacturer feels that the rate relations offends against this principle ---

MR. FRAWLEY: Q. Striking out "adversely affect his particular business" and substituting "offends against this principle"?

A. Yes, ... he should have the right to take his complaint to the Board of Transport Commissioners. We are not saying that he cannot appear before the Board of Transport Commissioners, but we are saying that this principle, which we stated in the first sentence, when soneone feels that this principle is offended could come before the Board of Transport Commissioners, and we put the onus on him for presenting the case. If he is able

to satisfy the Board that his contention is sound, and his contention, of course, would be that the rate relations in his business offend against the principle that the rate relations should not discourage producer location, then we say, the Board should be authorized to make whatever rate adjustments are required.

THE CHAIRMAN: Q. Has not the Board that authority right now?

A. It has the authority, sir, to alter rates in any way but it does not recognize this principle which you start out with that the rate relations should not discourage producer location.

COMMISSIONER ANGUS: Q. Do you mean "direct rather than "authorized"?

A. They should be directed by statute.

Q. That is very different from authorizing?

A. Yes.

THE CHAIRMAN: Q. Do you not think there would be some trouble in making a reasonable use of that language "the rate should not discourage"?

A. Well, sir, we thought that there should be something in the Act for this.

Q. I can understand the assertion that rates should encourage something. Do you not think that the applicant in every case would say that the rate that does not discourage him is the rate that would permit him to carry on business?

A. Yes.

THE CHAIRMAN: It would be better to say so plainly rather than put it this way.

MR. FRAWLEY: Q. What is in your mind when you eliminate the word "encourage" and use the word "discourag.?

A. We are not coming forward and saying that the Board be directed by statute to encourage producer location, but we just want - - -

COMMISSIONER ANGUS: Q. You want neutral or better rather than better than neutral?

A. Yes.

THE CHAIRMAN: Q. What would a neutral rate be; one that allows some advantages to the manufacturer at home and the manufacturer outside?

A. Yes, sir.

Q. That would be neutral?

A. Yes.

MR. FRAWLEY: Q. To bring out that point, Mr. Harries, if you will look at page 28 at the examples you state there that as a result of what has been established that the processing mentioned at Calgary is discouraged as against the other points?

A. Referring to the top of page 28?

Q. Yes?

A. Yes, I would say that they certainly are discouraged.

THE CHAIRMAN: Q. What you want, undoubtedly, must be an arrangement that would allow this manufacturing to go on in Alberta?

MR. FRAWLEY: Yes, my lord.

THE CHAIRMAN: You call that a rate that would not discourage?

MR. FRAWLEY: We take the position that we do not want any special favour; we want an even chance to process our own raw material.

THE CHAIRMAN: A manufacturer looking for a place to establish himself would find it just as good to set up in Calgary as in Vancouver?

MR. FRAWLEY: Yes, my lord.

THE CHAIRMAN: Q. And not better. I am talking of freight rates. So far as that element comes into consideration, he would be just as well off to set up his plant in Calgary as in Vancouver?

A. That is correct, sir.

MR. FRAWLEY: Q. You have something further to put into the record, Mr. Harries?

A. In making this adjustment the Board may change either the raw material rate or the finished product rate, having regard to the relative rate levels applicable on these two classifications, vis-a-vis similar raw materials and products. We are not asking that in order to make this adjustment the Board should always be required to bring down the higher rate, that is, if they are going to encourage processing at, say, point A as compared to processing at point B, they do not necessarily have to reduce the finished product rate from A to B, but they may raise the raw material rate from A to B.

THE CHAIRMAN: Q. You mean to raise the rate on transporting live animals?

A. Yes, we are trying to be fair in this case and in bringing forth these recommendations it is not against the revenue position of the railways.

COMMISSIONER INNIS: Q. Would you have to be something more than neutral to assume that there was an established industry in one province and it would be necessary to readjust the rates for an industry built up in a new locality?

A. We would not think so, sir, because of the fact that once you changed this relationship new capital which comes in, and it would not come in the first year or the third year or perhaps the fifth year, but would

tend to come to this new location which previously was discriminated against.

THE CHAIRMAN: Q. He would tend to go there?

A. Yes.

COMMISSIONER INNIS: Q. You would have the opposition of the people of Vancouver?

A. Yes, sir, we would.

THE CHAIRMAN: Q. Does not the fact that he would tend to come to Calgary mean that you have more of a Vancouver freight rate, not a neutral one?

A. It would depend then on other factors which would draw him there.

Q. I suppose you would have him looking at it this way - "I am not going to consider freight rates"?

A. Yes, sir.

Q. The freight rate factor would be wiped out?

A. Yes, in this particular regard. Then paragraph B of the Recommendations: The Recommendations regarding Long and Short Haul Discrimination which are to be found in our separate submission on the "Long and Short Haul Rule" will remove the objectionable locational disabilities arising from the present practice.

The recommendations regarding Interline Rates which are to be found in our separate submission on "Interline Rates; The Freight Classification; The Carload Mixing Rule" will remove the objectionable locational disabilities arising from the present practice.

The recommendations regarding Distributing Rates which are to be found in our separate submission on "Rate-making Principles and the Rate Structure" will remove the objectionable locational disabilities arising from the present practice.

As to Agreed Charges, we submit that Section 5 of the Transport Act, 1938, 2 Geo. VI Chap. 53, as amended, should be repealed. We submit that the granting of "Stop-off" privileges should be under the direct control of the Board of Transport Commissioners.

THE CHAIRMAN: Q. What is meant by the word "direct"?

A. We feel that if an individual wants any transit or stop-off privileges that he should first go to the railways and ask for that, and then if he is not satisfied with the result of that negotiation, he should then have the privilege of taking his case to the Board.

Q. He first goes to the railways?

A. Yes.

Q. And then if he is not satisfied he goes to the Board?

A. Yes.

MR. FRAWLEY: Q. At the moment the Board regards stop-off privileges as something to be granted to the shipper?

A. Yes, the only time he can go to the Board is when he feels that there is an unjust discrimination from the granting of stop-off privileges to some other shipper.

Q. Will you tell us on what principle the Board acts on granting or refusing this privilege?

A. If it was convinced of the desirability of giving it, it would decide whether the privilege should be granted. It is simply, sir, as a matter of principle that we think that the shipper would be better off if he has the right to take these problems to the Board of Transport Commissioners rather than to deal only with the railways.

THE CHAIRMAN: And the Board works out its own principle then?

A. Yes.

We submit that the freight rate structure should recognize the principle of Rate Groups, i.e. the principle of establishing common rates from the same production area to common market points, and we suggest that that principle should be in the Act, the principle of Group Rates. In our view Developmental Rates may be granted by the railways to a new or developing industry for a limited time only. If, after the conclusion of the reduced rate period the industry requires an extension of the effective period of the reduced rate, such extension must be approved by the Board.

MR. COVERT: Does that mean if the railways were willing?

A. Yes, and if the railways were willing it would be an automatic approval.

MR. EVANS: Q. But if it did not, that the Board must approve?

A. I mean that if the extension is granted, it must be approved by the Board.

THE CHAIRMAN: Q. Supposing a rate stuck for five years, they cannot cancel it without going to the Board?

A. We mean it would be automatically cancelled at the end of five years.

Q. Unless someone went to the Board?

A. Yes, unless the shipper went to the Board and said, "We need it for another two years."

Q. And the Board would have the right to extend it or cancel it?

A. Yes; the railways would be there and it would be the basis of evidence from both sides. What we had in mind,-- supposing an industry wanted to develop its market and they thought within three years it would have got its sales

staff up, and it would be into the market, but in order to get into the market it needed some transportation assistance and that at the end of three years they would be all right, but they might be held up in different ways, and then at the end of three years they had not established themselves, and then they would go to the railways and say, "May we have these rates extended or a reduced rate for another two years?" and the railways might say, "No, you can go right along and pay the normal rate as everyone else does." This shipper would go to the Board and present his case and the railways would present its side of the case and the Board would reach its decision as to whether this special rate should continue. That is precisely the trouble we have to-day. There is no time limit on the rate and they become accustomed to it.

(Page 10819 follows)

MR. FRAWLEY: Though you do sometimes take it out by some action of the railway.

THE CHAIRMAN: Do you think the case could happen where the Board would say "We are very sorry for you but you have had five years and you have had two years and you are still not properly established. You must allow the railways to go back to the standard rates even if you have to go out of business". Can you imagine that happening?

MR. FRAWLEY: I would be prepared to leave that to the discretion of the Board. How it would work out in individual cases I don't know.

MR. O'DONNELL: The Board would become an economic planning body.

MR. FRAWLEY: They would just say yes or no, surely.

MR. COVERT: I just thought while they were on the subject it occurred to me that perhaps at this time they might clear it up. It seemed to me there was a bit of an inconsistency with what he had said before, namely, that they were in favour of cutting off the rate at a definite time and it occurred to me that the way it read indicated that even if the railways agreed to an extension, they would have to go to the Board for approval of that extension because they say they should not be forever but should be for a limited time.

THE WITNESS: Yes, that is correct, sir. We would suggest that after the initial period is over, that any renewal of the rate must receive the approval of the Board, but it would certainly be my opinion that it would be almost an automatic approval if the railways and the shipper who had that rate agreed. Now, on the other hand, it may be working a hardship against another man in the

same industry.

THE CHAIRMAN: Perhaps I have forgotten but what about the initiation of this developmental rate? Would that be approved by the Board?

A. It would be approved by the Board but it would be an automatic approval.

Q. So the Board would come in at both times?

A. Yes, sir.

Q. When you began the rate and then when you extended it?

A. Yes, sir.

Q. Any objection against you would have to go to the Board for its approval?

A. Yes, sir.

MR. FRAWLEY: In the first instance it would be merely filing the rate for the Board's approval after the agreement was reached between the carrier and the persons seeking the developmental rate?

A. Yes.

THE CHAIRMAN: Then, if there is a renewal at the end of the five years, why not file another? Why go back to the Board then when you don't go there in the first place?

A. I think you would go there in the first place but we said we thought it would be an automatic approval, but in the second instance another shipper may have something to say about this rate and if the Board has evidence of that, then they may want to bring the matter to a hearing.

Q. But a shipper would have nothing to say when the rate is first approved?

A. Well, he would always be able to come forward and say that the rate was discriminatory or unjustly discriminatory, and so on.

MR. O'DONNELL: He can do that now.

A. Certainly he can do it now. The reason for this recommendation is that we are trying to get away from the kind of thing that happened in the pure bred livestock this year. That is primarily the idea of it.

MR. FRAWLEY: Now, Mr. Harries, will you tell me in your view how the Board would act when it would have an application for an extension of the developmental rate after the expiry period?

A. Well, I would think that they would listen to what the railways have to say about it and whether it was going to hold to the railway's revenue position and then they would listen to what the distributor or the manufacturer had to say about it and whether in their view, after examining his position, it was necessary for him to have that rate. And then I think they would take into consideration the more general aspects of whether this plant was - it may be a plant in the middle of southern Saskatchewan - whether it meant a great deal to have that industry there and they would consider that. They would consider economic and geographic conditions in this as I think they would in the reasonableness of any rate.

COMMISSIONER ANGUS: Isn't the pure bred livestock an example of an industry that never expects to grow up, that wants its rate in perpetuity?

A. That is the opinion you can certainly get from the situation to-day, but I would believe that that is only because of the fact that they have had this thing for thirty years and it is suddenly removed.

THE CHAIRMAN: Who do you mean by "they"?

A. The pure bred livestock people.

Q. That is a whole lot of individuals?

A. Yes, sir.

Q. It is not like a factory?

A. No.

Q. A whole lot of individuals who have been accustomed to a certain rate. How are you ever going to get them out of that? Are you ever going to get an individual in such a position where he will say "from now on I don't care if you raise the rate or not; I can keep on raising livestock and shipping them and I can still make money out of them". How are you ever going to manage that with individuals?

A. I am afraid I have got no suggestion there. What we are trying to point out -

Q. I can imagine it for an industrial concern, so-called - a factory in a certain place and so on, but what we call the livestock industry is no such thing, is it? It is all the people in a locality who raise livestock and ship it out. How are you ever going to get to that state of affairs where that community could say "now, we are on our feet; we can keep on raising livestock and shipping them even if the higher rate is applied to us".

MR. FRAWLEY: I think your lordship is quite right in what you say generally about the matter of the livestock industry. I would remind you of something of which you are well aware that in Alberta at least in the range country there are large units.

THE CHAIRMAN: Yes, there are less individuals with larger interests but still it is so many individuals you have to deal with.

MR. FRAWLEY: It applies to all the groups.

THE CHAIRMAN: Some here, and some there. How you could ever unify all them and come to the Board and say "Now this industry requires two years more of low freight rates" I think would be very difficult.

MR. FRAWLEY: Well, in that instance because it is widely dispersed you could not go for one; you would have to go for the whole industry.

THE CHAIRMAN: Still you call it an industry?

MR. FRAWLEY: Yes, that is an expression. I suppose it has certainly always been called that in Alberta.

THE CHAIRMAN: I know we do.

MR. FRAWLEY: I quite see the different application of the word in that and in other contexts.

THE WITNESS: Well, the industry, of course, has its council and I presume that when this particular rate was originally made that it was made through negotiation between the council representing all these individual pure bred producers.

THE CHAIRMAN: However, you have in mind that the time would come when every industry including that sort of an industry that the Board would have to say, "Now you have had enough. We are not going to grant you any more extensions of this rail rate".

MR. FRAWLEY: Yes sir, that is what we have in mind.

COMMISSIONER ANGUS: Then in fact, if this principle had been in operation as you suggest the rates would have been extinguished a long time ago on pure bred livestock - the concession rates?

MR. FRAWLEY: Yes, instead of being allowed to go on for thirty years until we were told in Calgary that it was accepted as normal in every sense of the word and then they were taken away over night.

THE CHAIRMAN: If instead of being taken away over night they had been taken away over two years would people have been better satisfied?

MR. FRAWLEY: Well, as Commissioner Angus says, a long time ago if the railways had applied some of the principles -

THE CHAIRMAN: If you applied the new situation and it came about so that this, what you call scattered industry had to say "Well, we now have to stop raising livestock because the rates have gone too high" -

MR. FRAWLEY: That is it, and they would have to convince the Board of that.

THE CHAIRMAN: No, I mean if one or several renewals took place, would the time come when they would say, "Well, the Board won't give us any more extension and we must go out of business"?

MR. FRAWLEY: I don't know that that would come about because there might be other compensating factors there.

THE CHAIRMAN: I was wondering what responsibilities you were throwing on the Board.

MR. FRAWLEY: Mr. Harries has given the pure bred livestock as an instance this morning.

THE CHAIRMAN: Yes, that is an instance which I find a very difficult one to handle.

MR. FRAWLEY: Maybe so. Now, do you have something more to conclude your Brief with Mr. Harries?

THE WITNESS: Yes, we omit the second last paragraph on page 55 regarding temporary rates and the last paragraph:

> "In the matter of rates made to meet market competition, is is our submission that rates of this type are not competitive in the ordinary or usual sense in which that term is used. All rates which are made to meet market

"competition should be subject to prior examination and approval by the Board."

Now, the way that is written might leave the impression that these market competitive rates, that we want them only in a radically different way from the ordinary competitive rates.

THE CHAIRMAN: Tell me first, what do you mean by "market competition"?

A. A rate which is made to enable a producer or a processor to get into a particular market in competition with other individuals who may be situated more favorably economically, geographically, or climatically.

Q. So the competition is between shippers?

A. Yes sir.

COMMISSIONER INNIS: How does that conform with your suggestion that towns like Tabor, Magrath, and Lethbridge should be put on the same footing? Now you say that rates which are made to meet market competition should be subject to increase and improval.

A. Well, those rate groups sir, would be established by the Board and they would be approved if an increase was proposed by the Board. I would not see a conflict there. The submission which we make in the -

THE CHAIRMAN: Pardon me. These rates are made in connection with what you call "market competition" between shippers and are rates which may give rise in private cases to the objection that they constitute unjust discrimination.

A. If there is unjust discrimination or if it can be shown that there is unjust discrimination created, now when a competitive rate is put in -

Q. The rate is disallowed?

A. Yes sir.

Q. You think that is not sufficient?

A. No, not in connection with market competitive rates.

MR. FRAWLEY: Why?

A. Well, because it seems to us that if you permit rates to meet the market competition, you can absolutely demoralize the whole transportation picture, because every one is cross hauling and there are uneconomic hauls and everything else, and we say to avoid that possibility there should be control of these things, very specific control of those things by the Board, and we say in the latter sentence here that someone who wants a rate to meet market competition should prove in addition to the ordinary things that are proved in connection with competitive rates -- what we say here in this last sentence is that they should discover that the general welfare of the particular industry will be advanced, and that it is in the interests of the carriers and of the consuming public that such rates be established.

THE CHAIRMAN: And that it does not hurt any other shipper nearer to the market?

A. That it is in the interests of the industry generally. It may hurt one but if it benefits ten, then I presume that it would be acceptable.

Q. Well, then, all discriminatory rates then should be forbidden unless it can be shown that they are not unjustly discriminatory?

A. Yes sir.

Q. The present machinery you think is not sufficient. Have you any cases in point now where any suffering has been occasioned by the present practice?

A. Well, it is rather difficult to pick out -

Q. I mean - you see, it is theorizing, they look all right on paper but they would be very difficult of application. Under the present system a rate comes into effect and those that feel that it is unjustly discriminatory against them can come to the Board and have it disallowed. Now, is that not good practise?

A. Yes sir, it is. We feel, for instance, and we will discuss it further in the long and short haul Brief, we feel that a lot of the rates put in from eastern Canada to Vancouver are rates made to meet market competition, and as a result of meeting that market competition certain of our industries in Alberta are injured. One example I might give to indicate that all we are presenting here-in spite of the fact that some of the things we are presenting are absolute theory-shows some practicability, is this; that there is a rate on salt from Windsor to Vancouver and we would maintain that that rate is a market competitive rate because of the fact that you cannot move salt in vessels or steamer or you cannot move them from Windsor to Vancouver.

Q. Where do you say?

A. In Windsor, sir.

Q. Against any competitor who is nearer to Vancouver?

A. Yes, there are plants at Neepawa and so on.

Q. You say that is wrong?

A. We say that in that instance they should be required to show before that rate comes, in that either it is carrier competition, and if it is, the rate is made on that basis, or if it is not carrier competition but market competition, they should show that there is an advantage to the industry which flows from the making of

that rate, and that is to Canadian industry.

Q. So that even if the particular factory is 500 miles or 1000 miles further away from the market than the one in Alberta, the Board might say "Well, in the interests of Canadian economy we should favor the distant factory"?

A. Yes, that might be quite possible sir.

MR. FRAWLEY: Now, then, that completes the submission by Mr. Harries and we have had now both submissions by Mr. Stewart and Mr. Harries, and now both witnesses are open for cross-examination. As a matter of personal convenience it would be preferred if Professor Stewart could be cross-examined first, because he is rather enxious to get back to the University, leaving tonight if he can.

- - -

PROFESSOR ANDREW STEWART RECALLED

CROSS-EXAMINED BY MR. EVANS

Q. I don't know whether you remember a discussion which you and I had on the first occasion we met,as to whether you represented the consumers of Alberta or whether you represented the shippers of Alberta,and I was going to ask you that same question in regard to this Brief.

THE CHAIRMAN: Just pardon me. Isn't Professor Stewart speaking for the government of Alberta?

MR. FRAWLEY: Yes sir, he is. I am presenting my brief and I am counsel for the Province of Alberta.

(Page 10834 follows)

MR. EVANS: Q. Well, my concern is whether your chief interest in presenting this Brief lies in the consumer or in the producer?

A. It lies I think in the general interest of the province, and I am not prepared to draw any clear distinction between the consumer interest and the producer interest.

THE CHAIRMAN: Will you please speak up?

MR. EVANS: Q. Well, the importance of this may develop, Dr. Stewart, and I am not trying to embarass you, but the importance of this may develop in this way, it may be that a local industry developed as a result of the process of rate making to which you subscribe would result in higher over-all cost of producing a given commodity because of the fact that your industry might be of necessity smaller than a centralized industry might be. Then, my concern at the moment is to know whether your proposal in this Brief for rates which are neutral would involve any consideration of the question as to whether, if the consumer were forced to pay higher prices as a result of that, you would still advocate producer location in Alberta?

A. If the issue became clearly such I would say no, but I don't follow you that that can be proven in our case.

Q. Well, for example, it has been commonly said that the geographical division of labor has the advantage in many cases of producing a lower price for a given commodity. - I am not saying in all cases - but that is one of the advantages which is sometimes put forward for geographical division of labor and production; and I was wondering whether your preference for industrial location in Alberta would take precedence over the question of cheaper production costs or the reverse?

A. No sir, I tried to make that clear in our submission, and we are very anxious to avoid any misinterpretation on this issue at all.

Q. Yes.

A. We are pointing out that the relationship between rates affects location.

Q. Yes.

A. Now, the only consideration that we are suggesting here is consideration of rates.

THE CHAIRMAN: What is that? Would you please repeat that last statement?

A. We are pointing out that the relation between rates affects location. There are a lot of other things that affect location.

Q. Yes, but here of course we are talking about rates.

A. Exactly. That is the only point we want to consider.

Q. Or rather we are talking about transportation rates.

A. Yes, sir. The only thing we want to have considered here is the question of relative rates, the other questions of specialized production would still remain. The only thing is what you put so well a minute or two ago, sir, that in determining the location of these plants the producer could just forget about relative rates and then he would consider all the other advantages of locating in one spot or another. But in the meantime the decision with regard to his location is confused by the relationship between rates on the raw materials and finished products.

MR. EVANS: Q. Yes. Now, would you agree with

this proposition as a generality, that a low level of rates generally is conducive to the geographical division of labor?

A. Yes.

Q. So that you might have the result of which Alberta complains merely because your overall level of rates-- and I am not saying that you should disregard all the elements in it -- but you might have the geographical division of labor of which Alberta now complains merely because the rate structure was too low generally?

A. No.

Q. You don't agree?

A. No.

Q. Well, then, do you abandon the idea that the geographical location can be brought about, the division, I should say, can be brought about by low rates?

A. Yes, I agree with that.

Q. So I am saying to you, not that the fact is, but I say in theory it might be that the position of which you complain could be because of the low level of rates.

A. Theoretically, yes.

Q. Yes. Now, would you turn to the introduction in your Brief, the first itemized paragraph?

THE CHAIRMAN: What page?

MR. EVANS: On page 1 of the introduction. That is, page 1 of the Brief.

Q. Now, in Item 1 you say:

"That the long run solution of the problems of the Canadian Railroads lies in an increased volume of revenue producing traffic rather than

"in high or higher rates."

Now, then, may I suggest this to you, that that is far too broad a generality. Would you not concede that the question as to whether the solution to the railroads problem may involve questions (a) as to whether they have now adequate capacity, or whether having regard to the increased volume there is money that is to be spent to provide the capacity, is that not true?

A. I can conceive that there is a short-run problem that would not be adequately met by the railways receiving an increased volume of revenue producing traffic.

Q. Now, there would be also some question, whether as a matter of economics it would be desirable to encourage the use of transportation merely to increase volume?

A. Merely to increase volume, yes.

Q. Well, merely to increase volume having regard to the fact you may get increased net revenue?

A. Yes. My position -- as you remember, this is an attempt to summarize what we said in Edmonton, my position there was that we were rather in favour of having the government do what it did in the earlier days, that is, to spend money on the development of resources, that is, to develop Canadian resources, which would then provide revenue producing traffic for the railroads, and that we thought would make a material solution of any problems the railroads may have. It is not merely to make revenue traffic, but to develop resources.

Q. Yes. Well, I was merely pointing out to you that such a statement as appears in item 1 might be considered too broad a generality, unless you bear in mind

some other factors that may have perhaps even more importance in the problem of the railways.

A. Very good.

Q. Yes. Now, then, --

COMMISSIONER INNIS: Q. You have not any evidence on the unused capacity of the railroads which I suppose you have in mind in this sense?

A. Any evidence of unused capacity?

Q. You are not putting in concrete evidence as to unused capacity?

A. No sir, I am afraid not. I am simply assuming that a business organization, which has as large overhead as the railroads undoubtedly have, could benefit by more traffic.

Q. Then, that assumes that there is unused capacity?

A. Yes sir.

MR. EVANS: I don't think that we would say that in given localities an unused capacity does not exist. You never can have complete, 100% use. But I was rather quarrelling with the witness's suggestion that that is the solution of our difficulty.

Q. Now, on page 3, or it is item 3, you speak of historic national policies having contributed toward creating in the prairie region an economy lacking an integrated, balanced economic structure, and that under national regulation there has been established and maintained a structure of rates which has impeded the development of resources within the prairie region. Just to clear up the record there, I gather you are speaking now of the development of natural resources, the production of raw materials?

A. Well, the whole pattern of resources, yes.

THE CHAIRMAN: Q. The whole what?

A. The whole picture of resources has been affected by the rate structure.

MR. EVANS: Q. I am really concerned at the moment to know, because I want to get clear -- I don't want to argue with you -- I am a little concerned to know whether you are arguing there that the structure of rates has impeded the development of the natural resources of the prairie region?

A. Perhaps some. I think others it has definitely encouraged.

Q. Yes. Now, there comes a time, Dr. Stewart, does there not, when you cannot make both charges? That is to say, it might be that your development of natural resources would come more quickly than secondary industry could absorb the output?

A. Yes. I think our view is that we are not complaining about the historic policies except in so far as the structure of rates may be a bit discriminatory against our region, as we see it. But we say rather than that, perhaps we have reached a new stage, and we are looking ahead in relation to the whole problem of rates, rather than looking backwards.

Q. Yes. Well, I was thinking of such things now as the production of oil in Alberta. That, I assume you will agree, has probably arrived at the point where the production is greater than the industry or refiners within the province could handle?

A. That is correct, yes.

Q. And some time, no matter how you would adjust your rate structure, is going to be required the development of refineries that could handle that capacity. That must be true?

A. Where are they going to be set up, sir?

Q. I am not suggesting where they are going to be set up.

A. But that is important to us.

Q. I am using this -- well, let us assume, I gathered from your evidence in chief you wanted the refineries set up in Alberta?

A. Preferably.

Q. Yes. Now, in your mind, no matter whether you achieve that objective or not, the production of oil may proceed more quickly than you could develop refinery capacity to handle it?

A. Yes.

Q. And so you are really face to face with a choice of having low rates to get your oil out of the province or of shutting up your production until you can, by this process of neutrality, make it possible for refineries to establish themselves in the province of sufficient capacity to handle the output?

A. There is an immediate problem, I appreciate, yes.

THE CHAIRMAN: Q. There is what?

A. There is an immediate problem. When a new field is discovered, as in the case of the Leduc field, undoubtedly your capacity for handling the raw material locally is inadequate and it will take time to establish this plant. In the meantime, I presume, rather than to reduce the allowables and cut down the production of the field, it is better to move the oil, the crude product, out of the province until the local plants are established.

MR. EVANS: Q. Now, is it part of your philosophy that you would be against the building of pipelines such as are now proposed to Eastern Canada for crude oil?

A. No. Well, when you say for the crude oil, there is in my mind an open question as to whether it is not equally possible to pipe gasoline out of the province. But I am afraid that is a technical problem of which I have no knowledge.

Q. Well, I just want to get the attitude of Alberta as to whether Alberta, having in mind the fact that it wanted secondary industry established there, would be in favour of a pipeline taking the raw material out of the province?

A. Well, we realize that in a complex industry like the petroleum industry there may be other factors making it advantageous to establish refineries at Regina and Winnipeg and other points, just as in the case of the meat and livestock case, it might very well be that if the rates are neutral,that other advantages would still result in the processing of Alberta livestock elsewhere. That is quite possible.

Q. Yes. Now, having regard to the fact that the pipeline is to be built, you would not suggest that when secondary industry has had time to establish itself, that the investment in that pipeline be abandoned, would you? You see, you come into an almost insoluble problem when you take the one position and then discuss it from the other standpoint.

A. I am afraid I don't quite see the parallel.

Q. Well, if you say you don't want the low rates on your raw materials that will discourage processing in the province and you are not against the building of a pipeline, what are you going to do when you have got to the point that your secondary industry could handle your output of crude, but you have got the investment in the pipeline which is moving the oil out? Now, what are you going to do about that situation?

MR. FRAWLEY: Move the gasoline by the same pipeline.

THE WITNESS: Well, I am not sure that that is a complete answer to Mr. Evans' question, to move the gasoline. I don't think we are building the pipeline because of a temporary lack of equipment.

MR. EVANS: Q. No.

A. We are, and the industry is, prepared to build the pipeline because permanently there will be some advantage in moving some Alberta crude by pipeline.

Q. Yes.

A. Just as I would say if the railroads are moving livestock, our proposition is not that the railroads will not move livestock. It is a question of the adjustment of rates. And if in the case of the petroleum industry they knew ahead of time that rates as between crude oil and gasoline were to be neutral, in our sense of the term, then they would simply go ahead and build their pipelines, if there were sufficient advantages to justify it.

Q. Now, I am wondering what you would do when the railway rates became neutral and the pipeline then had to fight for business with the railways, and to keep the crude moving, as against the finished products from the secondary industry in Alberta, what would happen? Would there not be pressure on the pipeline companies to reduce the rates on the carriage of oil?

A. Yes.

Q. And does not that in turn exert pressure on the railroads to reduce their rates on the carriage of crude oil?

A. Yes.

Q. Well, now, it seems to me, Dr. Stewart, with respect, doesn't it really require the wisdom of Solomon for a Board to try and establish relationships that will be good for every conceivable possibility?

A. Well, our point, Mr. Evans, is that the railways are doing that, and we think the Board has just as much of the wisdom of Solomon as the railways have, and perhaps a little more of the general viewpoint.

Q. Except that we don't claim the wisdom of Solomon, and your touching---

A. You are too modest.

Q. --faith in the wisdom residing in the Board--- now, there was one place in your evidence in chief where Dr. Innis asked you a question, while we are on the question of pipelines, I think it had to do with gas, and I didn't get a very full note on your view, but I gathered there that you were really taking the position that Alberta was against the building of pipelines for the export of gas from the oil fields. Is that correct?

(Page 10850 follows)

A. No; perhaps I should say that speaking on behalf of the Province of Alberta that the Province has not declared its policy in this matter. Looking at the transcript this morning, having been checked up by my counsel, I find that I did say it was my personal opinion that having the situation with regard to natural gas as it is, that would make it possible to export the gas to the United States, but that is purely a personal position.

Q. I am sorry if I embarras you; I had no intention of doing that, because it seemed to me that in a discussion with Dr. Innis, you rather thought that it was extremely desirable to have some sort of a relationship established in Canada by the Canadian railways so that when the time came, shortage of raw materials in the United States would force them to come to you, not only for the raw material but for the finished product?

A. That is correct. That is my statement.

Q. I wondered whether you considered the attitude of the United States Government on the question of tariff policy; that is to say, would it not be likely that they would be trying to protect their existing industry?

A. I know that has been the historical attitude of the United States, but I think there is an evident change in the thinking of the people in the United States, particularly in Washington. I am not so sure about Kansas, but at least in Washington the responsible people there are beginning to realize that the position of the United States to-day, as a result of developments over the past few years, is fundamentally changed, and that it is impossible for them to continue as the dominant political, military and economic factor in the world to-day. It is impossible for

them to persist in their historical policies. I think we are at a particularly strategic time to deal with the United States on these issues, and while I admit that you will find people who take a different opinion of it, my feeling is that we can make some progress in negotiating with the United States, progress which would have been impossible twenty or thirty years ago.

Q. I do not know that I can quarrel with that statement. Really, what I had in mind that you thought there was some advantage of having this neutrality principle in the rate structure before you approached the United States Government to bargain?

Q. I referred later to the illogical position we would be in afterwards if we had gone to them and said: "You remove your tariff impediments to the entry of finished products", and then having done that, they turn around and ---

Q. I thought you did not intend to give the position you gave; that your bargaining principle would be better if you had this neutrality principle adopted now?

A. I do not think it would affect your bargaining position.

Q. There is another fact that I suggest you consider, and that is, that it takes two to make an international rate. Had you considered that - two railways?

A. Yes, we have a submission on joint railways.

Q. One of the characteristics, strangely enough, in the United States rates is to protect industry, but there is the question of balance between the two. Now then, having regard to that, would you not agree that no matter how willing our railways are or how willing

our Board is to establish this neutral position on international rates, it would be completely ineffective so long as the idea persisted on the part of the United States Government and the United States Interstate Commerce Commission that their industry be protected?

A. Yes, as long as that is in effect.

Q. There was some discussion yesterday about the matter of the disturbances to existing industry. I would like to take you back a bit. In the early days in this country there was, I believe you will agree, a development in Eastern Canada of these so-called secondary industries. Now then, as exploration was pushed west and the railways were built, it was, perhaps, natural, was it not, that an industry already in Eastern Canada should have pushed forward into that new territory with its product seeking a further market?

A. Quite.

Q. I should think you would agree that had a secondary industry immediately established itself in the West it probably could not have competed on an overall production cost with industries that were already established?

A. That is probably true.

Q. I suggest to you that, having regard to the fact that an industry has once been established and has a large production, that there is a very substantial resistance to change in location or decentralization?

A. Yes.

Q. And it also follows that the principle applied to Alberta affairs, that there is resistance to change from a central locality to some new ground?

A. That is right, sir.

Q. Would you also agree that in either case it has prospects of greater profit for industry and probably

higher wages for labor?

A. That is a very important factor. There is this question of imperfect competition, Mr. Chairman. I do not want to re-open that question but under a condition of imperfect competition there may be other considerations affecting the location and distribution of particular complaints within a business organization.

Q. I think that we have the position where that resistance is there, and I am merely going to suggest to you that you might require more than mere neutrality to change that?

A. Quite; that is all we are asking for.

Q. You are just asking for neutrality?

A. Yes.

Q. I thought you had gone a little farther yesterday. All I am asking you is that it is neutrality that you asked for, but are you convinced that neutrality would give you what you asked for?

A. We are prepared to take a chance on that.

Q. If whatever relationships are disturbed, do you think that you still should have neutrality to-day which would produce a substantial disturbance to establish industry elsewhere?

A. That is precisely the problem that I posed yesterday, and I think it is the question of method that is involved rather than a question of principle. The first point is that in particular cases it would have to be shown that the disturbance is serious. I think in many cases, and I think your question suggests that you feel the same way, that in many cases it won't make any very serious disturbance.

Q. I was going to make this suggestion to you that I see a distinction and I was wondering whether you had neutrality in the establishment of a new industry which did

not affect an established industry, neutrality would be a reversal?

A. Mr. Harries mentioned this morning that he was having no promises of new capacity; that, perhaps, an adjustment in that case would not affect a particular balance to the extent that they would have to be closed down, but the change of relative profitability would be sufficient that any new capacity would tend to be in the producing area.

Q. That would be the subject of an economical as well as a rate study, would it not, if the Board did consider this question?

A. Yes.

Q. Would not the Board pretty well have to have the wisdom of Solomon to satisfy everybody on such a question?

A. No, we have a lot of administrative boards. They do not satisfy everybody but we are not kicking them out of the window.

Q. I thought you were. I thought this brief was kicking out the attitude of the Board on these matters?

A. We want to polish up the windows so a little light gets in.

Q. May I take it that your brief is not challenging the way of the Board as to the exercising of this power or the lack of power in the Board?

A. That is somewhat a legal distinction that I am not sure that I am capable of drawing. Mr. Frawley put our position quite well this morning that it may require something in the statute or it may require a directive as to how they would interprete the statute.

Q. On page 5 there is table there, Doctor Stewart, and that table shows the growth in livestock in the various provinces between 1945 and 1948, and the purpose of that

table, as I understand it, was to show the relative post-war industrial extension?

THE CHAIRMAN: I think we had better come back this afternoon.

The Commission adjourned at 1.00 p.m. to resume again at 2.45 p.m. this day.

(Page 10860 follows)

[illegible]

[illegible]

[illegible]

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CANADA

REFER TO FILE NUMBER

DEPARTMENT OF TRANSPORT

ROYAL COMMISSION ON TRANSPORTATION

February 9th, 1950.

MEMORANDUM TO: The Chairman,
Dr. H.F. Angus,
Dr. H.A. Innis,
F. M. Covert, Esq., K.C.,
G. C. Desmarais, Esq., K.C.

I enclose herewith Table, Investment in the Prairie Provinces by Provinces, as referred to at Page 10860, Volume 56 of the Transcript of Evidence. This is information which Professor Stewart undertook to obtain.

Paul L Belcourt

P. L. Belcourt.

PLB:H
Encl.

January 23, 1950.

TABLE 1.

INVESTMENT IN DURABLE PHYSICAL ASSETS COVERING ONLY MANUFACTURING, MINING, WOODS OPERATIONS AND SELECTED UTILITIES, PRAIRIE PROVINCES, 1945 TO 1948.

(Millions of Dollars)

Year	MANITOBA	SASKATCHEWAN	ALBERTA	TOTAL PRAIRIES
1945	9.1	4.0	11.1	24.2
1946	14.9	6.1	18.7	39.7
1947	23.5	11.5	31.9	66.9
1948	27.9	13.8	71.1	112.8

Source: Revised Estimates as of January, 1950 by Economic Research and Development Branch, Department of Trade and Commerce. The significant increase in the revised estimate for 1948 is explained by the fact that oil and gas drilling expenditures in Alberta in that year turned out to be considerably higher than anticipated earlier by the companies involved.

AFTERNOON SESSION

...The Commission resumed at 2.45 p.m.

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PROFESSOR ANDREW STEWART RECALLED

CROSS-EXAMINATION BY MR. EVANS continued.

Q. Professor Stewart, I was about to ask you some questions about the Table on page 5 and the first question I wanted to ask you was whether you had the figures for Alberta as distinguished from the Prairies as a whole which seem to be the figures you use in the Table?

A. No sir.

Q. Would it be fair to suggest that in the period 1945 to 1948 there is a very strong probability at least, that the figures for Alberta would show probably, a somewhat greater growth than the Prairies as a whole?

A. That is almost certain, yes.

Q. And would it be fair to suggest that that difference between Alberta on the one hand, and the Prairies on the other, might be very marked in view of some later developments in Alberta?

A. Yes, including the year 1948 it could be very marked.

Q. Now, I suppose that in the statistics which you use, the Department of Trade and Commerce has not got the Alberta figures separate from the Prairies?

A. That is, I think, correct. This is the only source of this information that I know of and in this publication it is not broken down by provinces. Now, whether application to the Department of Trade and Commerce would make it possible to get the figures or not by provinces, I do not know.

Q. Now then, I assume Mr. Frawley would get those if they are available?

MR. FRAWLEY: I will see. I will ask if the Department of Trade and Commerce have them.

MR. EVANS: Then the second thing that I wanted to direct your attention to in the table, is the fact that looking at Montreal and Toronto, there has been, I think, relative to the province in which those cities are located, there has been a relatively smaller increase over the period shown in the table in the cities as compared with the province as a whole?

A. Yes, there is just one point to notice there, Mr. Evans. The figures for the two cities are not as inclusive as the figures for the provinces. That is pointed out in the footnotes and also in the concluding paragraph of the page. The one is for manufactured assets alone and the other includes manufacture, mining, woods, and select utilities.

Q. Of course, my question was really related to the rate and not to the absolute growth, and I suppose if the rate of growth were materially different in the cities than in the province as a whole, it might well be that the conclusion could not be drawn that the effect of the growth in that period necessarily meant a greater centralization in Montreal and Toronto?

A. It is impossible to conclude that from the figures.

Q. I thought so too, and that is why I directed your attention to it. Now then, if I may go back to a section of your evidence yesterday, you used what I thought (if I may call it so without being offensive) a homely example, when you were talking about this general principle of neutrality and I think you gave an

Q. Now [illegible] Mr. Pewley would [illegible] if they [illegible] available?

MR. [illegible]: I will [illegible] will ask if the Department [illegible] them.

[illegible] that [illegible]

[illegible] is the fact that [illegible] there has been.

[illegible]

[illegible] what?

[illegible]

inclusive [illegible] figures [illegible] the provinces. [illegible] pointed out [illegible] in the remaining [illegible]

[illegible] Chinese manufacture, mining, [illegible]

[illegible]

Q. [illegible] that [illegible] your attention [illegible] yesterday [illegible] (if [illegible] without [illegible]) [illegible] thing about [illegible] authority [illegible] thing [illegible]

example of the older days when the blacksmith flourished and the local maker of farm machinery was also active and you compared that, as I recall it, with the present-day concentration of the manufacture of farm machinery in large plants, particularly in the East. Now then, I would like to ask you this question. Do you think that is bad, necessarily?

A. No sir.

Q. And that is speaking for Canada as a whole as well as for Alberta?

A. Yes.

Q. Now then, does it follow that the consumer is in any way hurt by that change?

A. Not by the process of increasing the size of units as such.

THE CHAIRMAN: Please repeat that answer.

A. Not by the increase in the size of units as such. That does not - I will put it this way. I think that increase results from technological development very largely and the large-scale businesses which develop out of technological development I think are an advantage.

Q. Does anything injure the consumer?

A. It is possible. It is possible injury might be done to the consumer.

Q. I suppose one would want to know the kind of injury?

A. We are back into imperfect competition again, Mr. Chairman.

Q. Well, when we get the mystic formula of that we will take it up.

MR. EVANS: What I mean, Professor Stewart, is if you had a concentration which was sufficiently

concentrated so as to develop substantially a monopoly or, at all events, one of those terrible things called "combines" the consumer would suffer?

A. Right.

Q. But I think you and I understand each other on that but what I was intending to put to you, if I did not make it clear, was that it does not follow that every geographical location or centralization of industry apart from those abuses would hurt the consumer?

A. No.

Q. And it follows that the disappearance of the blacksmith and your local implement manufacturer does not necessarily hurt the consumer?

A. No.

Q. So it is there, I think, that we need to point this up a little bit because the disappearance of the local implement manufacturer might be a matter about which you, as a representative of Alberta here today, would complain?

A. We do not.

A. You do not?

A. No, we are not complaining.

Q. Then may I put it this way, that no part of your presentation today is intended to express regret that agricultural implements are not manufactured in Alberta?

A. Positively, not on any blacksmith level.

Q. I did not mean blacksmith literally; I was merely using your language. How about the local implement manufacturer?

A. Provided that it were possible. After all, the areas of consumer of agricultural implements, the consumption (if we can use that term) of agricultural

implements is in the west. There is a large local market. Therefore, the advantages of consumer location which apply in certain industries and make for location in the east, would seem to apply so far as the implement industry is concerned in the west, and I conceive it quite possible that at some stage we may develop a manufacturing industry of agricultural equipment bringing in, say, raw steel and doing the processing close to the point of consumption. Our position is that we do not want --

THE CHAIRMAN: What about the point of the raw materials in this case?

A. Well, we may discover the raw materials.

Q. But for the present you are not worrying about that?

A. No, we are not asking for any sort --

Q. You are content to allow the implements to come into Alberta from the East providing you get as cheap freight rates on them as possible?

A. That is our position here, yes.

MR. EVANS: So actually, the position really gets down to this, that the cheap freight rates on agricultural machinery manufactured in the east might actually be a deterrent to the manufacture of those same implements in Alberta or in the West?

A. Yes, possibly.

Q. So that in the case of agricultural implements you are prepared to forego this neutrality in order that the farmer might get cheaper implements from the east?

A. Frankly, I have never considered the question of neutrality on rates in connection with that problem. I do not know whether they are neutral or not.

Q. I have not either.

THE CHAIRMAN: There is no competition in sight there. I suppose the question of neutrality occurs when there is competition, but here, you see, there is no competition. Professor Stewart says up to the present they are content to allow those implements to be made outside provided they are brought in to the consumer in Alberta at reasonable rates of transportation. Isn't that right?

A. Yes.

Q. So there is no competition?

MR. EVANS: If that were the position taken by Alberta I think I would be inclined to sit down now.

THE CHAIRMAN: Well, that is the position.

MR. EVANS: I don't think so, sir. I think they have said that "We have a paucity of secondary industry here and we want to get that secondary industry where it does not exist now" and therefore, the fact that there is no competition from Alberta today does not influence their attitude.

THE CHAIRMAN: But up to the present has not that desire for home industry related itself to cases where the raw material is in Alberta - the meat, the livestock, the gas? That is the sort of case we have been hearing up to the present. Is not that so?

MR. FRAWLEY: Yes sir.

THE CHAIRMAN: It is quite different. Up to the present there is no thought of manufacturing farm implements in Alberta so the question of competitive rates for the transportation of these implements does not seem to me to arise.

MR. EVANS: I was just trying to clear that up with the witness. Now then, returning to this question of neutrality would you agree that in substance the neutrality which you want is related mainly to the relationship established by the input-output ratio of the secondary industry? I am thinking of the ratio of the weight of raw materials to the weight of product.

A: That is the way you have to look at it. Mr. Harries went over this point in some detail this morning and quoted from the American study of this, and while we say that it is impossible perhaps to fix a definite and rigid relationship over this in terms of the input-output relation, that you have to establish this relationship.

Q: That is all I want. It is not that I am holding you to any exact percentage because I think it would be considered that that is not possible, but I do want to get clear with you that the prime consideration which fixes the limits within which this neutrality must operate is the input-output ratio ?

A: I think that is a fair statement.

Q: Now then, what would be the position if the cost of service on the finished product were such that it would be impossible to establish that input-output ratio as the relationship in rates? Would you still take the position that that ratio should apply and that one should disregard the elements of cost of service?

A: As I see it, it would be quite open to the Board, after hearing the sort of application that we have in mind, to say that it is impossible to apply the principle in this case, and I see two possible situations in which the Board might well do that. One is where it said "There are a lot of different materials going into this. It is a

complex product, not like the livestock-meat thing and it is just impossible to determine the answer to the question of what would be neutral rates in this case, and, therefore, you have not proved your case because you cannot prove it, and, therefore, we cannot apply it." That would be one. The other has reference to this consideration of other rates on materials and other rates on finished products and I think it would be open to the Board to say that to make an adjustment of the relative rates to effect neutrality would so offend other principles of rate regulation that the Board could not conceive of it.

Q: I think I understand your answer, but might I put it to the homely level of illustration. Let us suppose that the input-output ratio could be established at two-thirds or say that the product was two-thirds of the input-output materials. Take as simple a case as you can that of one such as wheat and flour. Now then, that relationship would then be that the rate on the product would be one and a half times the rate on the inbound material to establish neutrality?

A: Yes.

Q: Now if it were shown that the cost of carrying the product were twice as great, would you give any effect of would you have the Board give any effect to the difference in cost of service as distinct from the relationship on a neutrality basis?

A: Well, personally I am not very enthusiastic because the cost of service principle, I think, is impractical. I just do not think you can determine the cost of service so that that would be my answer to that question.

Q: I am not speaking of cost of service as a principle, but supposing it could be shown that the cost

of service was double, you say that your lack of enthusiasm for the cost of service principle would be such that you would disregard the cost of service and come to the neutrality principle basis of input-output ratio?

A: I would think that the Board could properly take whatever evidence could be given on cost of providing service and take that into account.

Q: Now, which would you advocate should take precedence in the matter of the fixing of rates?

A: Neutral rates.

Q: Now then, let us suppose that in the same case the manufacturing processes were to contribute to the value of the finished product as compared to the value of the raw material, a value of say five times the value of the raw material-- would you concede anything in your neutrality principle to the value of service?

A: Yes, I would concede something to the value of service, although that is equally difficult to determine precisely.

Q: Well, I think you and I will agree that in the science of rate-making, while the value of service principle does apply, as Mr. Harries quite properly says, there is no exact measurement, and I suppose it also follows that also cost of service enters into the rate-making, that there is no exact measure of the cost of service. But I do not want to tie you to anything so fine as that. I really want to get you to say whether in the event that both value and cost of service indicate that the finished product could stand the higher rate, that the railways were actually exposed to higher costs of carrying the finished product, would you then give precedence to your input-ouput ratio or your neutral principle in rate-making?

A: I think it would have to be determined by the Board on the evidence before it and as to the extent of the adjustment that was required the degree to which it might offend the cost of service principle or the value of service principle, to decide whether it was possible to apply it. Now, that is what we mean by saying the Board would have to look at the rates charged for other products and, supposing you had an input-output ratio of a thousand to one, to take a very extreme illustration, we are not asking that you should spread the rates between the two so that the rates are a thousand to one. That is utterly ridiculous. We quite well see that.

Q: That might be true in your gas example where you are using some of the chemical content of gas?

A: Yes, in that case it is impossible to apply it.

Q: Now, it seems to me that you and I are not too far apart in some of these things but where you are suggesting either legislation or direct action you would have to be extremely careful to avoid tying the hands of the Board in those respects, would you not?

A: I can see great difficulty in framing what we would like to see in the Act about this. That is true, yes.

Q: And I was going to suggest to you that actually the theory of reasonableness which I think there has been some tendency to deprecate in relation to the attitude of the Board, really is the fundamental problem in dealing with relationships in rates generally, is it not - reasonableness having regard to the avoidance of extremes and tying yourself too closely to rigid principles?

A: I agree with that entirely.

Q: Then I suggest to you, and I do not know whether you disagree with me or not, that reasonableness of rates is the basic principle which the Board adopts in considering these very relationships you are discussing?

A: With this modification, that we would like the relationship between raw material rates and finished products rates to enter into the consideration of reasonableness.

Q: Now, do you suggest that they do not?

A: Absolutely.

Q: Now, without arguing with you, I suggest that that is the very thing that the Board does consider and that is the very thing that the Interstate Commerce Commission considers, but let us not argue about it. Now then, I think I am almost ready to leave that discussion. Now then, I think there are just two more questions on that. One is this; the relationship between the raw material and the finished product which would be necessary to establish neutrality would be different in every case where you were dealing with plants in different locations, that is to say, if you have a different haul on the raw material and a different haul on the product, you would have as many different relationships to look at as you would have plants and sources of raw materials?

A: I presume that is so, yes.

Q: You think that is so?

A: Yes, I would think so.

Q: Because I think the examples in your brief indicate that you never get two relationships the same on any given level of rates unless you have complete and absolute parity of rates between raw materials and finished products?

A: Well, as we are unable to establish precisely what parity is, we cannot just say that that is so.

Q: I do not want to go too exactly into this, but I just want to leave this thought and see if you agree, that you would have one relationship, say, meat and livestock, one relationship existing under the existing rate structure as between Alberta and, say, Manitoba, and quite another relationship as between Alberta and the Eastern packer and you would have to find some mean adjustment, would you not, and that the extent to which that mean would cover a given situation would depend on the number of packing plants that you had to take into account in adjusting your so-called neutrality?

A: The density of the conditions would affect the applicability of the significance of a general application to particular plants, that is true.

Q: Now, the last question I wanted to ask you about this was a variation of another. If you came to the point where the Board had fixed a reasonable level of rates for the finished product or the raw material and the other had to be brought into relation with that to meet your input-output ratio and the adjustment resulted in a non-compensatory rate in one of the other cases, what would you do? Would you raise both rates?

A: Well, can I go back to your original assumption which was that the Board had set a rate? Now, the first thing I would ask would be: "Would the Board in setting this rate take into consideration the relative rates when it set that particular rate?" If not, I am not interested in the rate they set.

Q: I am sure that it was my fault you have not

seen my point. Let me put it this way. You spoke now of a desirable change and the Board in the past has said that "The rate of (we will say) packing house products or fresh meats is so much and that is reasonable". Now then, if you found, as is the suggestion in your brief, that the relationship between livestock and meats is not satisfactory and you then had to reduce the level of livestock rates -

A: I do not concede that that is necessary because I think the first rate is itself given subject to revision.

Q: That is all I want to get, but what you would do is, you would decide what the relationship would be and you might have to adjust both rates upwards to maintain the relationship and to make them compensatory?

A: I can conceive that that would be possible in particular cases.

Q: That is all; I don't want to get into detail. Now then, on Page 6, it is really a variation of earlier cross-examination and I don't want to repeat it, but there is a suggestion there that seems to be critical of the value of concentration of industry in its various branches into geographical areas, and you are suggesting that that is a fundamental weakness in economy. Now I gather there that you are speaking of the economy of Alberta and not of Canada?

THE CHAIRMAN: Where do those words occur, Mr. Evans?

MR. EVANS: On Page 6, the last line of the second complete paragraph "Fundamental weakness of the economy".

A: There are a number of points -

THE CHAIRMAN: It says "The weakness of the economy in this region or of the units of government in this region".

MR. EVANS: I wanted to know whether he meant by "this region" Alberta or the prairies.

A: I am referring to the Prairie region. You might notice in the paragraph immediately preceding, the last sentence, we refer to the strategic significance of decentralization of industry. I do not want to argue this point, but I think we are very sensitive about the whole question of accumulation and concentration of industry just now.

Q: You would not feel like dropping "in this region" and saying "the economy of Canada", or would you go that far?

A: Well, it has been a weakness in some respects in that we have been largely a raw material exporting country.

Q: I think, putting it as fairly as I can, that might be considered to be a weakness of the prairie economy and not necessarily be a weakness of Canada as a whole?

A: Well, we are a part and if a part is diseased then the whole is disturbed.

Q: If it is diseased, yes. We perhaps differ on whether this constitutes a disease or whether it is a little complaint.

THE CHAIRMAN: Doesn't that paragraph simply say this, that the weakness of the economy of the prairie region is the fact that industrial expansion in that region has been relatively slow?

MR. EVANS: Yes.

THE CHAIRMAN: Is that what you are saying, doctor?

A: Yes sir.

COMMISSIONER INNIS: Would you go so far as to say

that you are really concerned with the sort of economic arguments which might be developed in relation to Alberta which have been developed in relation to Canada as a whole?

A: Yes. We have a very felicitous phrase about integrated balanced economy which Dr. Innis, I think, will recognize.

(Page 10870 follows)

CROSS-EXAMINED BY MR. BRAZIER:

Q. Just one question, if I might, arising out of Mr. Evans' cross-examination. Dr. Stewart, you stated in answer to a question from him that you felt the cost of service principle impractical, is that correct?

A. Yes.

Q. Now, were you thinking of it based on the cost of service of an individual shipment or in what way were you considering the cost of service being based?

A. I am thinking of the whole problem of costing in a business like the railroads, where you have joint products and facilities and various things to allocate and distribute, and I don't just think it would be practical to do it with any degree of accuracy at all.

Q. You don't think that average system costs can be worked out for different products?

A. Certainly they can be worked out, but the question is what do they mean?

MR. FRAWLEY: Dr. Stewart, I am sure Mr. Brazier would not mind if you would partly turn your back on him and address the Commissioners.

THE CHAIRMAN: If you would speak louder it would be bettdr.

THE WITNESS: Mr. Brazier asked me whether it would not be possible to set up an accounting system to work out the cost of service and my answer was it is perfectly possible to do it but my question is: What does it mean when you get it? But I don't know.

THE CHAIRMAN : Q. You don't know?

A. No.

COMMISSISONER INNIS: Q. It has not been done?

A. No.

MR. BRAZIER: Q. You don't think that information could

be applied to the establishment of rates and used as a basis, not as a strict guide, but as a means by which rates could be judged?

A. It seems to me, in this problem, I don't know one single principle or one single way of getting at the answer, -- that an organization, an agency like the Board of Transport Commissioners, must call upon all sorts of reasonable and sensible considerations which will help them to get at an answer, and it may be that some costing device might be useful in doing that, but not by itself.

THE CHAIRMAN: Q. You think they don't do those things today, apparently?

A. I don't know how much costing the Board does. I am sorry, I cannot tell you.

THE CHAIRMAN: Go on, Mr. Brazier.

MR. BRAZIER: Q. If such costs could be worked out, would you agree that it should probably be the principal factor taken into consideration when fixing a rate?

A. I don't know how to answer that, Mr. Chairman. When you are really setting up imponderables, I don't know how you can apply percentages.

THE CHAIRMAN: Q. That is what you call "imponderables"?

A. Yes, when you are weighing them, I don't know what it is. No, I cannot answer.

MR. BRAZIER: You cannot answer that?

EXAMINED BY MR. COVERT:

Q. First, Dr.Stewart, I think you say, in effect, that the long run solution of the railways' problem is increased volume and not higher rates, and that volume can be created by developing the nation's resources? And I would assume that generally speaking, that would be a task for the provinces individually to look after, would it not?

A. The provinces have jurisdiction over their natural resources.

Q. Yes.

A. But a sympathetic federal government would be very important too.

Q. I was wondering, you are not suggesting that this Commission should make any recommendation with respect to that, are you, as a practical solution to the transportation problem?

A. Well, I think it would be sufficient to point out that in the past the federal government has been a very substantial instrument.

Q. And that they should continue to do so?

A. That is a good thing to do, yes.

Q. Then one other question, and that had reference to, as I understand it, the position that Alberta takes is that industry should have a right to complain to the Board of Transport Commissioners that rate relationships are such that they are not neutral?

A. Yes.

Q. That is correct. And would you think,-I gather that you suggest that the Board should have very broad powers looking into all phases of the matter, and not be guided by any strict rules, but that they should be able, perhaps, to administer equity, is that

your idea?

A. In the non-technical sense of the term, yes.

Q. In other words, they could hear any reason set forth, there would be no exact guiding principles about the compensatory nature of rates, or --

A. Well, there would be guiding principles, but no precise application of them.

Q. Now, when you say there would be guiding principles, could you give us an example of some of those guiding principles that you have in your mind?

A. Well, I have already suggested that the in-put, out-put, relationship is one of the things which would lead you to determine whether a rate is neutral or not, a rate relationship?

A. My reference to the consideration of rates on other materials and on other products would suggest that the value of service principle would be under consideration, perhaps the cost of service as well, but weighing all these things that the Board can say that an adjustment of a certain moderate kind would not often--- the value of service principle would be more applicable to the cost of service principle than it now is, and yet would me t this principle of neutrality and they would say in that case it is possible to grant this application.

Q. In other words, what I want to find out, they would take everything into consideration that was presented to them that they would consider relevant, that is your view?

A. Relevant, yes.

Q. Would there not be a danger that they might consider one case and administer equity and then another case would come along and all kinds of new things that were presented to them, and the result would be that you would

have one decision in one case and an entirely different decision in another one. Would you be afraid of that?

A. Well, I am thinking of a case like the meat-livestock case. Now, we are not arguing this case here, we are using this as an illustration. We could do the same sort of thing as the I.C.C. has done in the States, and the application would come forward from somebody or other, but in dealing with it they would deal with the issue on meat-livestock.

THE CHAIRMAN: Q. Deal with what?

A. Deal with the issue of meat-livestock rates on some general basis and then you have no application or consideration as far as that problem is concerned. Somebody else might come along with timber and pulpwood.

Q. You use livestock -- why livestock? The condition on livestock has come before us in two aspects, Mr.Frawley, in this inquiry. In the first place,there is the aspect where you compare or relate the transporation of livestock to that of meat.

MR. FRAWLEY: Yes.

THE CHAIRMAN: And you think the spread is too great. The other,then,is where you take livestock as being itself an industry.

MR. FRAWLEY: Yes.

THE CHAIRMAN: Anxious to get outside markets.away down in the United States and so on and therefore anxious to have as low a rate as possible. Do you see any conflict in that case, in the two cases, within the two aspects of the transportation of livestock?

MR. FRAWLEY: I see no conflict at all.

THE CHAIRMAN: One from a point in Alberta,say,to a a point in Calgary and another from the same point in Alberta to the United States, or Winnipeg.

MR. FRAWLEY: Yes, St. Paul.

THE CHAIRMAN: St. Paul. In that second case, of course, you would desire to have low freight rates.

MR. FRAWLEY: That is right, sir.

THE CHAIRMAN: And that is one of the grievances there, that those rates having been made low at one time were then increased and so on. You can think it over.

MR. FRAWLEY: Yes,sir. I don't recall -- certainly we have not advanced any argument to the Commission that the rates on livestock for shipping livestock to St. Paul are too high.

THE CHAIRMAN: No, but I don't know whether your desire to have livestock go from a point in Alberta to another point in Alberta where there is a manufacturing plant, a processing plant, would lead to a higher freight rate on the livestock and a lower freight rate on the meat going to Vancouver.

MR. FRAWLEY: Yes, we assumed that we faced the consequences. We said it didn't matter whether or not the livestock rate had to come up or the meat had to come down. We wanted a better relationship.

THE CHAIRMAN: Are you thinking how that would affect your livestock shipments outside of the province, from the province to places outside?

MR. FRAWLEY: Am I being conscious of that in advancing this proposition?

THE CHAIRMAN: Yes.

MR. FRAWLEY: Yes, sir, I am.

THE CHAIRMAN: And you think there is no conflict?

MR. FRAWLEY: I think there is no conflict.

THE CHAIRMAN: All right, Mr. Covert .

MR. COVERT: There was a complaint or at least a suggestion, I believe, in Alberta by one of the witnesses, I forget the name of the submission, Mr. Chairman, where he

came on after the Gainers' brief had been submitted, and he suggested that it would be a very bad thing if the rates on livestock were raised, because I think, if I remember correctly, he suggested that that would prevent them from getting a good price for their livestock.

MR. O'DONNELL: That, Mr. Chairman, is the evidence of Mr. Allen at page 2291, which reads:

> "I had no opportunity of reading the submission made by Gainers, and I would not want to venture an opinion on it. All I heard was the discussion, and I could not catch all parts of it. There was one part, however, that I should like to comment on, and that was what I took to be a recommendation that a preferential tariff be established inside the province, that is, that local packing plants inside Alberta get a preferential rate that would enable a greater amount of processing to be done inside Alberta. I feel certain that would not meet with the approval of the producers because that would eliminate the competition which we get from outside buyers in Vancouver, Winnipeg and other places. I feel certain that would be strongly opposed by the producers' organization."

MR. COVERT: Q. Now, what I wanted to ask --

MR. FRAWLEY: I think I will have to intervene now. I was waiting for this. I knew that it would be a miracle if my friend, Mr. O'Donnell, did not take the position he has taken.

MR. O'DONNELL: All I have done is to read what Mr. Allen said. Mr. Covert indicated that he would like to know where it was.

THE CHAIRMAN: As a matter of fact that runs through my mind.

MR. FRAWLEY: That is right.

THE WITNESS: Mr. Chairman, there is one minor point here. Mr. Harries is much more familiar with this particular case probably than I am and if it would be more appropriate to take it up --

THE CHAIRMAN: We will let Mr. Frawley say something.

MR. FRAWLEY: Yes, I have quite a bit to say.

THE CHAIRMAN: I asked you whether you saw any conflict in the two different aspects.

MR. FRAWLEY: And I said I thought there was no conflict.

THE CHAIRMAN: Yes.

MR. FRAWLEY: Now, after the meeting in Edmonton, and in view of what I am sure my friend Mr. O'Donnell will not mind if I use the word his dramatic cross-examination of Mr. Allen, my friend Mr. O'Donnell left thinking "that is just about the end of my friend Mr. Frawley's case on rate parity".

MR. O'DONNELL: I didn't think anything of the kind.

MR. FRAWLEY: We conferred with Mr. H. W. Allen, the President of the Alberta Livestock Co-operative limited, and we discussed with him the possible, not misconception of his evidence, but possible innocent misinterpretation that might be put upon it. We read to him what he said and what he said was this:

> "I had no opportunity of reading the submission made by Gainers".

You will remember that Gainers' representative made a long presentation in Edmonton, they filed a short exhibit and spent some time in discussing the highlights of the exhibit. Mr. Allen goes on to say:

"I had no opportunity of reading the submission made by Gainers, and I would not want to venture an opinion on it. All I heard was the discussion, and I could not catch all parts of it. There was one part, however, that I should like to comment on, and that was what I took to be a recommendation that a preferential tariff be established inside the province, that is, that local packing plants inside Alberta get a preferential rate that would enable a greater amount of processing to be done inside Alberta."

THE CHAIRMAN: A preferential rate on what?

MR. FRAWLEY: On livestock.

THE CHAIRMAN: Going to their plant.

MR. FRAWLEY: Yes sir.

"I feel certain that would not meet with the approval of the producers because that would eliminate the competition which we get from outside buyers in Vancouver, Winnipeg and other places."

Now, as a result of the discussion that we had with Mr. Allen and his Board of Directors, we have received this letter from him: "Winnipeg, Manitoba, November 11, 1949" -- and Mr. Harries calls my attention to the fact that the Alberta Federation of Agriculture, -- which includes the Alberta Livestock Co-operative operators, were present at the discussion.

"Dear Mr. Frawley: Re Livestock and Meat Rates.

As a result of the discussions which took place between the Board of Directors of the Alberta Livestock Co-operative, Mr. Hu Harries and yourself, I have been instructed to convey to you our Board's opinion in this matter.

Our Board is of the opinion that the Alberta Livestock Co-operative should support the proposition that Alberta is advancing regarding raw material and finished product rates. This proposition is, of course, stated in the brief titled 'Industrial Location in Alberta and the Present Rate Structure'. Our understanding of that proposition is that raw material and finished product rates should bear a relation to one another insofar as Industrial Location is concerned. Furthermore, we are whole-heartedly in support of the proposition that nothing in the railway freight rate structure should be allowed to militate against the development of any secondary industry which uses raw material derived from sources within the Province.

We believe further that the acceptance of this proposition does not mean that the secondary industry should seek or should get -- should seek or should get -- preferential consideration in the matter of freight rates. That is, we don't want to see the producer of the raw material placed in the hands of the processor because the producer's market for raw material is limited by adjustments in the freight rate structure.

In the matter of our own industry and the relation between meat and livestock rates, the producers of Alberta believe that in no circumstances should local Alberta packers be put in a preferential position over packers outside of Alberta. The Alberta livestock man looks to outside markets to provide an ever necessary element

of competition, and under no circumstances do we wish to see that competition removed by the application of artificial impediments which give the Alberta packing industry preferential consideration. We are not, however, unwilling to give the Alberta packer an even break with the packers from other Provinces.

The importance which livestock men attach to the free movement of livestock to points outside the Province is illustrated by an instance which occurred at Winnipeg only a week ago.

At a meeting in that city between representatives of the livestock producers of the three Western Provinces, and Mr. L. W. Pearsall, and other representatives of the Dominion Marketing Services, the government representatives were asked to consider certain vital changes in hog grading regulations for the sole reason that these regulations slowed up, and in some cases seriously hampered the movement of live hogs from Winnipeg to Eastern Canada.

In this case, little or no criticism was directed at the actual regulation, the whole objection was to the fact that the regulation left the Selling Agency in the position where they could not so readily offer the livestock in question for sale to either local buyers on the one hand, or to Montreal and Toronto buyers on the other.

Hoping that this statement will convey to you very clearly our position in the matter, I remain, Yours very truly, H. W. Allen, President, Alberta Livestock Co-operative Limited."

And I would like to offer this letter as an exhibit and I have some copies for the commissioners.

MR. COVERT: It has been read into the record and I don't think we need it as an exhibit.

THE CHAIRMAN: Yes.

MR. COVERT: I didn't know that innocent question would lead to all this.

THE CHAIRMAN: He refers to the preferential treatment.

MR. FRAWLEY: Yes.

THE CHAIRMAN: It would appear to me in one aspect of that question he is opposed to it, but in another aspect to be in favour of it, is that in your mind?

MR. FRAWLEY: He says he does not want a preferential treatment to the Alberta packers. He says that very plainly, sir.

MR. O'DONNELL: He understood what he was asked when we were in Edmonton, My Lord, and I do not know that that is the right way to do things, to go around and see a witness after he has taken a position. And Mr. Allen, you will remember, is a very prominent gentleman, and a former cabinet minister. He was asked:

> "Have you any suggestion about the proposal that there should be parity on rates as to livestock and meats?"

and I read what he said, and Mr. Frawley read it, so that is the end of it. But Mr. Frawley or whoever went around to see Mr. Allen after he had taken that position, and he endeavours to procure a slightly different statement by means of producing a letter which is now read, and which precludes any further discussion with Mr. Allen by way of cross-examination. I don't think that is quite the way it should be done.

THE CHAIRMAN: Perhaps I raised more of a storm than I intended to raise.

MR. FRAWLEY: No, I realize it would be raised in any event.

THE CHAIRMAN: I just wanted to understand from you that you have no regrets about advancing in one field rates which were favouring the shipment of livestock outside of the province.

MR. FRAWLEY: At any rate, I am here representing the Province of Alberta and I presented the brief of the Province of Alberta, and that is why we have presented this, so that there may be the proper relation. Now, we must understand the setting in which Mr. Allen's answer is taken. Gainers had gone in with their brief, that is not what I am submitting here, Gainers wanted a lower rate on livestock, to syphon the livestock into their Edmonton plant, that was what Mr. Allen was commenting on. Surely before we finish our Presentation I should show by this letter that is not what we are asking. We are simply discussing the relation between rates, I mean, and asking them to be neutral. And that is why I have read Mr. Allen's letter. Now, I am going to stand on what Mr. Allen said on page 2291 and what he said in the letter.

MR. O'DONNELL: I do not see that the letter should have anything to do with it. Mr. Allen took a position at page 2291 that is very very clear:

> "Have you any suggestion about the proposal that there should be parity on rates as to livestock and meats?"

And having taken the position and for them to solicit a letter to try to bring it here and contradict what

Mr. Allen said, it is not quite the right way to do it.

MR. FRAWLEY: My friend says it is not the right thing to do. I say I would have been derelict in my duty if I had left this page as it stood in which he says what I thought to be a recommendation for a preferential tariff on livestock inside the province. I want to know more than Mr. Allen was saying there. Now, my friend is saying "You should have left this" so that in February or March when we came around to discuss this, he could say "The complete answer to Mr. Frawley's case is what Mr. Allen said at page 2291". That would have been eminently unfair to my case.

MR. O'DONNELL: I read his evidence to begin with, and you read his evidence, and that is when it should have been cleared up.

MR. COVERT: We have got all the information now, I think we might get on.

MR. FRAWLEY: It is all very well to brush it off that way, Mr. Chairman, and I certainly think that should be done --

MR. EVANS: You have not any letters from Mr. Purdy and Mr. Coppock who took a similar position at the Alberta hearings?

MR. FRAWLEY: Now, I cannot allow that to go unchallenged. I want to see when Mr. Coppock and Mr. Purdy took a similar position.

MR. O'DONNELL: It is all on the record.

MR. EVANS: I will be glad to do that. The Western Stock Growers' Association witness, Kenneth Coppock, at the hearing at Calgary on June 14, 1949, at page 1903, the witness said to raise the rates

further would in his judgment greatly undermine the long term position of the industry. And there was Purdy, a witness for the Federated Co-operative Services Limited, who took a position complaining -- as a matter of fact, one thing I recall was the comparison between the level of livestock rates in the Maritimes and the level of livestock rates in Alberta.

MR. FRAWLEY: That has got certainly nothing to do with what I am advancing here, that there should be a proper relationship between meat and livestock rates. Nobody is discussing that.

THE CHAIRMAN: I think you want that relationship to be established without prejudice to the operations of the livestock producers who ship their livestock to the markets outside of the province.

MR. FRAWLEY: That is true, there is no doubt, and that takes us into a very large field, sir, because I am here to protest against the people of Alberta being and permitted to remain hewers of wood and drawers of water and shippers of livestock on the hoof forever and forever --

MR. COVERT: Amen.

MR. FRAWLEY: My friend says "Amen" and I am willing to join in the amen. Probably we will bring it up again at another time.

MR. O'DONNELL: Are you going to bring Mr. Allen?

MR. FRAWLEY: Yes, I will bring down Mr. Allen if my friend thinks I have done anything unethical or unprofessional or wrong. I will bring Mr. Allen here at the expense of the Province of Alberta if you wish --

MR. COVERT: No.

MR. FRAWLEY: So there will be no question how he stands about the thing. If it is thought I have done anything that is in the slightest degree improper tear the letter up and I will bring Mr. Allen here. It seems to me I would be bound in fairness to myself to bring him.

THE CHAIRMAN: Always remember that this Commission cannot fix rates for you.

MR. FRAWLEY: That is right and that is what we have been saying throughout the piece.

THE CHAIRMAN: We can only recommend certain principles to be followed in fixing rates.

MR. FRAWLEY: That is right, sir, and I hope we have been talking principles to the Board.

THE CHAIRMAN: All right. I thought perhaps there was some injury to the principle in the two ways in which you bring it out.

MR. FRAWLEY: That is right, and I will have to take the responsibility if any injury results to the livestock producers, from this perfectly proper,, as I submit, from this principle which I am asking to have established.

MR. COVERT : Could I question the witness now?

THE CHAIRMAN: Yes.

MR. COVERT: Q. What I wanted to ask, Professor Stewart, is this: that among the things that the Board of Transport Commissioners would take into consideration on any hearing of that kind presumably would be any complaints or the registration of disapproval by the producer.

A. Yes sir.

Q. You would envisage that?

A. Yes.

Q. And the Board of Transport Commissioners could consider things of that kind, perhaps they would deal with the matter on the old saying the length of the Chancellor's foot -- would be guided by the length of the Chancellor's foot? Is that a familiar expression to you?

A. No, but it sounds good.

MR. COVERT: That is all I have.

THE CHAIRMAN: Does anybody else wish to question Professor Stewart?

Then, we thank you.

MR. FRAWLEY: My Lord, before there is any cross-examination of Mr. Harries I have got to make a short apology to the Board.

THE CHAIRMAN: Well, the Board is not here.

MR. FRAWLEY: Or to the Commission. The Board is almost here, My Lord. I understand that we are not to have any opportunity to reply to the briefs of the Canadian Pacific Railway or the Canadian National Railways by a separate witness in the witness box. And the understanding is, which I have accepted, that if we have any answer to make to the briefs filed we will do so in the course of the presentation of our submission.

THE CHAIRMAN: I thought you had done it.

MR. FRAWLEY: No, I had not called the witness' attention to this this morning, and I wanted to get his feeling --

THE CHAIRMAN: Were you not given a date at which you were to file briefs in reply?

MR. FRAWLEY: That was related, sir, to the Crow's Nest Grain Agreement.

THE CHAIRMAN: No, not that at all. Mr. Secretary, was there not something about November 12th being the date?

MR. FRAWLEY: I may have misunderstood it, and I will go further and say from something Mr. Hunter mentioned to me the other day, he thought I had misunderstood it. But I had understood that no one was requesting a brief, but I took h that to be a request to file a statement on the Crow's Nest Pass Grain Rates by the 12th of November. In any event we were not to be given an opportunity, I mean we were not expected to ask for any further hearing for a witness to go into the witness box and answer the railways' briefs and I accepted that situation but I do want to ask two or three questions or point to three or four suggestions in the Canadian Pacific brief where they attack our position and ask Mr. Harries' comments. That is all I want to do.

THE CHAIRMAN: That will be, Mr. Frawley, your method of replying

MR. FRAWLEY: That is right, and I understand that is the way in which the Commission wishes it done.

(Page 10890 follows)

MR. HU HARRIES, RECALLED:

EXAMINED BY MR. FRAWLEY

Q. Now, Mr. Harries, will you look at page 128 of the Canadian Pacific Railway Company brief, where you will see this: "Moreover, as Canadian Pacific interprets the submission, the desire of Alberta is to enable the Board to do a considerable amount of economic planning in manipulating the rate structure". What do you say about that?

A. We do not suggest that the Board of Transport Commissioners be made a planning board at all. We suggest that there is implicit in the problem of controlling rates a certain amount of economic planning, and we submit further that under competitive conditions that is handled for the most part by the railways. We say that the Board should take a more active role, but we would like to make absolutely clear that we are not suggesting that the Board be made an economic planning board in the wide sense where they would create industry here and there according to some procedure that they worked out. We do not believe that this is a suggestion of ours that the Board be an economic planner in that sense at all.

Q. Mr. Harries, I want to take you to something else on page 128 where it is said near the bottom of the page:

> ". . .it is a generally recognized principle that rates on raw materials should be lower than rates on manufactured products."

I call your attention to that statement and also to one on page 129 which says:

> "Alberta in effect desires to change this in the hope that by providing additional powers to the Board with suitable directions to it, the location of industry in Alberta can be encouraged and increased."

What is your comment on that?

A. I would say, Mr. Frawley, that we agree with the

principle that rates on raw materials should be lower than rates on manufactured products, and there is no suggestion in our brief that you should move manufactured products at the same rate as raw material from which that product is made. We do not wish to change that principle at all, and we are asking that the Board be provided with additional powers and suitable directions so that they can establish industry in Alberta for us. We are not in complete agreement with the C.P.R. in Part I of their brief, and at pages 34 and 35 we suggest what we think is the correct principle.

THE CHAIRMAN: Q. Is that volume I or volume II?

A. Volume I.

Q. What page is it?

A. Pages 34 and 35.

MR. FRAWLEY: That is at the very last line of page 34. They say there:

"There would be no reason for the present tendency to reduce total costs of manufacture by processing weight-losing materials close to the point of production, because none of the cost of moving these materials would be charged against the users of them."

They give a reference in that case to Doctor Locklin's book, and also to Alfred Weber's Theory on the Location of Industries?

A. We are not in complete agreement with that principle and we are desiring to change it.

Q. Will you turn to page 130 of Part II of the Canadian Pacific Railway Company brief, where you will find this:

"Canadian Pacific points out that the forces operating to produce the result of which Alberta complains, are complex and that short of economic planning of the broadest

kind, it would be difficult, if not impossible, to bring about the result desired by Alberta."

What comment have you to make on that?

A. In that regard, Mr. Frawley, we are not coming before this Royal Commission to complain about the fact that we have not got a lot of industry in Alberta. We are coming here to complain about the fact that we believe there are certain instances in which the freight rate structure unjustly militates against the establishment of secondary industry, and we are seeking to have that impediment removed. We are not complaining that Alberta has no steel industry or no synthetic rubber industry; we are just complaining that these are relationships which mitigate against the establishment of industry and should be removed.

Q. We have heard about livestock and manufacture of meat. Have you anything to add to that?

A. The petroleum industry and also the manufacture of soap.

THE CHAIRMAN: Q. And I think you said "sugar"?

A. Sugar was not included in that.

MR. FRAWLEY: It is a producer location industry now, my lord.

THE WITNESS: We do not believe that if we do get this principle established that suddenly industry is going to come into every hamlet in Alberta, but we think that the long run fact of that would be to establish industry location near to the raw material supply. It is not a five year proposition; it is more like a twenty five year proposition.

MR. FRAWLEY: Q. Here is another reference in the Canadian Pacific Railway Company brief on page 131, where they say this:

"With regard to its complaint about the reasons advanced by the railways for the making of the agreed charge on refinery products from Fort William to Saskatchewan points, Canadian Pacific submits that Alberta's complaint really points up the difficulty of giving effect to its contentions. The agreed charge on refinery products from Fort William is complained of on the ground that it provided increased competition for Alberta refineries."

Now then, what do you have to say about that comment?

A. We are not complaining at all about the reasons that the railways gave for making this agreed charge. We were simply using that as an exemple, and I will admit that we haven't very many of them because they are difficult to come by, and perhaps, there are not very many of them. Anyway, when we use that example there is no necessary relation between what is given for the railways and what is given for any part or the whole economy; so we are not complaining about that at all. We are simply saying that the railways did what they thought best, and as far as we are cconcerned, that is a long way from what is best. Then, with regard to the second sentence in that brief, we do not anywhere in our brief complain about agreed charges on refinery products from Fort William on the ground that they provide any more competition for Alberta refineries. I would take it from what was said on page 132 that the C.P.R. said we did. That is a misstatement of fact.

Q. We are certainly not worried about Venezuela crude competing with Alberta crude?

A. No, we never mentioned that.

MR. FRAWLEY: Thank you very much, my lord. I should

[illegible]

Williams [illegible]

[illegible]

that the railways [illegible]

[illegible]

for the railways and which [illegible]

[illegible]

provide [illegible]

[illegible]

have done that this morning.

CROSS-EXAMINED BY MR. BRAZIER:

Q. Mr.Harries, on page 35 of your brief you are discussing the Long and Short Haul Discrimination and its effect upon industrial development, and you quote the statement of Mr Eddington. Since that time, Mr. Harries, I believe it has been ascertained that the rates to which Mr. Eddington made reference there have been changed as follows: the rate on canned goods from Toronto to Vancouver is $1.40 with a 70,000 pound minimum car load, and the rate from Magrath to Vancouver is $1.36 with a 24,000 pound car load. Would you agree that so far as this part of the brief is concerned that these rates are at least neutral or a little better than neutral?

A. I would say, Mr. Brazier, that this plant, which was established, I believe, in 1946 was unable to get into the Vancouver market because of these transcontinental rates and it has been since its establishment very frequently in the past not able to get in and they have a four cent differential over Vancouver.

Q. Over Toronto?

A. Yes, to Vancouver. A man is not going to build a factory on the basis of the rate to-day or even yesterday.

Q. If the rates are assumed as they are to-day, then this example will no longer be a legitimate one so far as the fact of industrial location is concerned? Am I correct in that?

A. No I am afraid you are not. Even if they paid the same rate from Magrath to Vancouver as they pay from

Toronto to Vancouver the ability of the Magrath man to get in to the British Columbia market and distribute it, say from Vancouver there is going to be an inequality.

Q. You are getting in there at slightly less than the Toronto man. How is the Toronto man affecting your ability to compete in the Vanouuver market?

A. For the simple reason that he is moving stuff 1500 miles farther and gets the same rate. He is getting his stuff in there and instead of having an industry in Toronto and one in Magrath, if you did not have that kind of a situation, we would argue that you would have a chance of having them all in Alberta.

Q. Perhaps, I have misunderstood. Your presentation was that all you were asking was that your position be neutral; that you would be at no disadvantage?

A. No, there are two parts to our submission or two general subdivisions, the one is the rates on raw materials and rates on finished products, and we say there that the rate relations between these two should be eutral, and then we go on to talk about market rates, and with regard to market rates we are not willing to accept the fact that the rate from our factory to some point is the same as from someone else's factory to the same point. We are not asking for neutrality in these things. In fact, what we are asking for in connection with long and short haul discrimination, which we stated on page 54, I think, is the adjustment that we asked for in the other brief which will take care of that situation.

THE CHAIRMAN: Q. Is your position this; do you say that in respect to the Vancouver market you have a geographical advantage over Toronto, and you do not want anything in the way of freight rates to impair

that and that there is only a difference of four cents in freight from Toronto and from Magrath; is that right?

A. Yes, sir, I think in a certain instance because of competition or something we may not be able to get all the advantage that comes from our geographical position. We would not say that the Board should have recourse to any such as this when it looks at these particular transcontinental rates that we are talking about now.

MR. BRAZIER: Q. I was trying to place this example in relation to the present brief. You say that in this case you want a rate that is better than neutral?

A. We say in connection with long and short haul discrimination the recommendations that we have in our brief on that problem will remove as much as we think can be removed by the results of the non-application of the long and short haul rule as regards in industry location.

Q. There is just one other statement I wish to ask you about. This morning you stated that salt cannot be moved by water, and I wondered upon what basis you made that statement?

A. I think I said packaged salt cannot be moved by water. My understanding is that on a haul from Eastern Canada through the canal up to Montreal that the packaged salt would become solidified in the packages.

Q. From whom did you get that information?

A. From the Alberta Salt.

Q. They have not shipped salt that way?

A. Not as far as I know.

Q. You never enquired from any shipping man?

A. Any man that ships salt?

Q. Yes?

A. They ship salt.

Q. They ship salt by water? Did you ever enquire from any of the steamship companies?

A. No, I did not, Mr. Brazier.

CROSS-EXAMINED BY MR. EVANS:

Q. Mr. Harries, I just want to follow up a question of Mr. Brazier's - no, I am sorry; it was in the discussion in regard to page 132 of Part II of the Canadian Pacific Railway Company brief. You said there was not necessary relation between the railways' interest and the interest of the public?

A. Yes, sir.

Q. Is that correct?

A. Yes, that is correct.

Q. Do you go this far; do you go as far as Manitoba in that regard? Do you suggest that the Government should intervene where its interpretation of the public interest is different from that of the Board and it is desirous of bringing about a different decision then the Board would otherwise give?

A. I do not want to avoid your question, but our brief on Regulatory Legislation puts forth the evidence of the Government.

Q. You gave an answer, and I think you said there was no necessary relation between the interest of the railway and the public interest, and I was wondering how far you would go to have the public interest presented in this case. I rather gathered that you felt that the railways could not be trusted. Who was to be the interpreter of public interest when the Board

is making this decision?

A. I do not believe I said that the railways could not be trusted, but our submission is that the activities of the Board of Transport Commissioners and with some amendments to the statute that that would take care of the situation so far as industry location is concerned.

Q. You would go as far as Manitoba in what it says that the Government should intervene from time to time when the public interest was concerned?

A. In this instance we certainaly do not, Mr. Evans.

Q. On page 32 of this brief there is a little question I want to ask you as to the dressing percentage. I understood your evidence-in-chief to hvee been that 60 percent includes the so-called edible products and the hide, and I just wanted to know whether you had any information as to what proportion of the weight of the animal is represented by the hide?

A. Yes, sir, in the evidence-in-chief I mentioned the figure from the Industry and Development Council of the Canadian Meat Packers in connection with a steer weighing 1025 pounds, and they said that in that case, and it was a good butcher steer, the hide would weigh about 54 pounds on the average.

Q. That would be 5.4% on a thousand pound animal?

A. Yes.

Q. Which would be on the order of 6% of the weight of that animal?

A. Yes, 5.4%.

Q. I was just pointing out to you the extent by which that percentage would be reduced; by taking into account the hide would operate in an opposite

direction than from what your tables show; that is to say, the so-called relationship would be changed in the opposite direction to the extent that that percentage of dressing is reduced?

A. You mean a differentiation between what we say in this example would be reduced if you forgot about the hide?

Q. Am I right in that?

A. You mean if you forget about the hide in this present percentage?

Q. If you put in 53% instead of 60% which way would they be affected.

A. It would reduce the differentiation between Calgary and Vancouver processing.

Q. At page 25 - perhaps, I should start at page 24; in Table 2, taking cattle and calves the absolute growth in Alberta has been greater than in Ontario and Quebec?

A. Yes, sir.

Q. That would appear to be so?

A. Yes.

Q. And percentage-wise the growth in Alberta would be very substantially greater than the growth shown in the Table for Ontario and Quebec?

A. Than in Ontario and Quebec?

Q. Yes?

A. Yes.

Q. There has been a greater increase in Alberta in the total number of slaughterings of animals than there has been in Ontario and Quebec?

A. Yes, that is correct.

Q. On the next page the slaughterings as a percentage

of the provincial market show, in the case of Ontario, an actual decline between 1930 and 1946, do they not?

A. Yes.

Q. And that is also true of Quebec?

A. Yes.

Q. It is not quite so true of Manitoba; as a matter of fact, there has been an increase in the case of Manitoba?

A. Yes.

Q. And in the case of Alberta there has also been an increase in the percentage of provincial marketings that are slaughtered in Alberta?

A. Yes.

Q. Is it also true that there has been a growth in the production of livestock in Alberta in that same period?

A. Yes.

Q. So that actually under the present system of rates it would appear that the packing industry in Alberta has shown relatively greater growth than the packing industry in Ontario and Quebec?

A. Yes, that is correct.

Q. Then on page 29. You told us this morning in your consideration of the question of the relationship between the rates on livestock and on meats what you thought, but have you done any study to indicate the probable effect on the prices to the consumer of the resultant product?

A. I have done nothing in the way of organized study on it but I have certainly discussed that matter with livestock people and with several of the packers and with two or three Calgary economists of my

acquaintance and the general result of these inquiries was that there would be no difference in the price to the consumer because it was the general opinion that to-day the differentiation between markets that there was no difference.

Q. You are now speaking of the consumer of Alberta?

A. No, I am speaking of the consumer of Canada.

Q. Without having made a study it was the opinion that you had that the arrangement of this relationship would enable your Alberta packer to lay down, we will say in the Eastern market, meat at no greater price?

A. That is correct, sir.

THE CHAIRMAN: Do I understand, Mr. Evans, that Mr. Harries says that the set-up would allow meat from Alberta production to get into Montreal at the same price?

MR. EVANS: I did not put it at Montreal, my lord. I would assume that you could not say that the cost to the consumer would not be increased by this decentralization unless you confined the cost to the biggest market which was in the East. I think the witness said that he thought they could meet that competition without increasing prices in the East.

THE CHAIRMAN: When I said "Montreal", I thought you said "Montreal". It means the Eastern meat market?

MR. EVANS: Yes, my lord, that is what I think the witness means.

THE CHAIRMAN: What I have in mind, it is one thing to get your meat from Calgary to Vancouver,

but it is another thing to get it to Toronto and Montreal.

MR. EVANS: I think that the big market is in the centres with the greatest population if this industry is to compete.

Q. Now then, there was some discussion about difficulties of rates on tallow and the rates on soap, and I was not sure whether you felt that those rates and the relationship between them are now satisfactory or whether you felt they were unsatisfactory. Will you clear me up on that?

A. My information in connection with those rates would be that under the present circumstances where you have no caustic soda production in Alberta that the rates which apply on tallow are quite acceptable but in the instance, if and when, you get caustic soda produced in Alberta the trouble that we would find in the rates on soap and tallow is that they do not conform with what we have called the principle of neutrality.

(Page 10905 follows)

Q: You say that probably you would find they did not conform?

A: I think we would; I have not made a study of that matter specifically.

Q: You see our difficulty. You come here and you say "I have not made a study" and you think that "If we had a source of another raw material we probably would think that these rates were out of proper relationship". Now, don't you think it would be fair to say "Well, we have not made a study and we don't know"?

A: I don't think so, Mr. Evans.

Q: Because I am going to suggest to you this, that the rates on tallow from Winnipeg to Montreal and Toronto are $1.02 and the rate on soap from Winnipeg is $1.49. Now, there is not a very great difference when you think of tallow as a raw material and soap as a finished product, is there?

A: No.

Q: And I was going to suggest to you that that relationship, on the fact of it, did not look too bad, and that you would have to do more than merely say that it might prove to be out of relation, wouldn't you, to be quite fair?

A: Yes, I think we would, where there was an industry such as soap manufacturing and situations comparable to the packing house industry. That is on Page 30.

Q: Am I correct in saying that you were taking the position that the soap industry and the tallow industry, at least the rates on soap and tallow are in such relation that they discourage the production in the West of soap?

A: I said if we had caustic soda out there I thought we would -

Q: But in your brief you do not mention caustic soda?

A: As a matter of fact I referred to it later on. No, in this instance I did not.

Q: You have to consider a lot of things and if you have an industry located in one place, you must overcome lack of some of its basic commodities. Other things than freight rates in relation to the main raw material and the finished product will affect that won't it?

A: We have never maintained anything else but that there are not a lot of things that affect this.

Q: I did not get that view from your brief. Now then, on the matter of salt, you had something to say about salt to Vancouver and you dealt with the rate on salt from Eastern Canada to Vancouver and you felt it was to be condemned because it was not carrier competition but was market competition?

A: I said I did not - I did not say I thought it should be condemned; I said I thought it an example of a market competitive rate.

Q: Well, do you condemn that as a principle?

A: No.

THE CHAIRMAN: What case are you referring to now?

MR. EVANS: This is in cross-examination. I am just checking on this and things from my notes. I was going to put this to you. The rate on salt from Goderich or Sandwich or Sarnia to Vancouver is $1.10 in bags or barrels or boxes, also pressed and fused or loose, weighing 50 lbs. or over, and the rate from Neepawa, Manitoba, to Vancouver is $1.06. The rate from Waterways, Alberta, is .85¢ and from Lindbergh, Alberta, .70¢. Now then, there is almost - well there is a margin of .40¢ between the rate from the East to Vancouver and

the rate from Lindbergh, Alberta, to Vancouver. Now then, having regard to the length of haul and the tendency of rates to taper, it does not look to bad a comparison, does it? Would you suggest that that is a relationship that is doing harm to the producers of salt in Alberta?

A: I said that I thought it was an example of a rate made to meet market competition, and I think that any time you charge $1.10 from Sarnia and Goderich and so on to Vancouver and charge .70¢ -

Q: 70¢ from Lindbergh.

A: 70¢ from Lindbergh to Vancouver, then I don't think that is on a mile for mile parity taking into account the taper.

Q: Do you mean mile for mile parity or do you' want to take into account the tapering of rates?

A: I said mile for mile parity taking into account the taper.

Q: Now, we come back to your brief. Now there is one other thing I want to clear up. In connection with this agreed charge on butter at Page 10744, there was a suggestion by you that the agreed charge being $1.75 and the special commodity rate having been put in when the mountain differential was removed of $1.71, that in those cases the shipper was prevented from getting the rate which was cheaper than the agreed charge, namely the rate of $1.71. Now, are you quite sure you are right on that?

A: I did not mean to make that suggestion at all. Just where in that page particularly?

Q: Well, if you did not intend to leave that inference I accept it. I gathered that you wanted to imply that the railways stood on the agreed charge and would not give the benefit of a later commodity rate which

happened to be lower than the original agreed charge?

A: No sir, I said here it was non-operative, that is the agreed charge rate was non-operative because there was $1.71 rate in effect. What I meant was that the man had an agreed charge and he was not able to use it because of this adjustment - not that you made him pay $1.75 when he could have got it for $1.71.

Q: Now, when you said -

MR. FRAWLEY: I think perhaps at this point I should say seeing as we are looking at that very page where Mr. Harries made another remark where Mr. Evans objected to it yesterday, the witness said:

> "It is of interest that the Canadian Pacific Transport Company had bought out Dench after 1941 and it was Dench who was going to provide the competition in the hauling of this butter out of Alix"

Now, I want to say for myself and the witness that if there were any implications taken by my friend out of that statement that they had used Dench and deliberately removed Dench from competition but did not provide the competition that otherwise might have been there, if there was any such implication as that I will withdraw it.

MR. EVANS: To be perfectly frank, the implication I took out of that evidence was that we held Dench as a means by which we justified the agreed charge and provided the competition, that we ourselves put up the competition and then put in an agreed charge to beat it.

MR. FRAWLEY: There was no such inference intended.

MR. EVANS: Then, if you will go to Page 32. Now then, you are dealing then with the flour milling industry in Item 3 near the bottom of the page, and you speak of the

rates on grain and flour as being an example of the neutral effect upon the location of the processing plants?

A: Yes.

Q: Now, I want to get from you whether you think that the neutral effect consists in the weight relationship, the input-output ratio, or whether you think the neutral effect is to be obtained by a parity such as there is in rates on grain and flour?

A: Now you are referring to this milling-in-transit privilege as opposed to the recommendation that we make on Page 54 about what we did at one time with neutral rates but which we changed.

Q: No, I am sorry if I am not making this clear, but I find it a little difficult myself. When you speak of the neutral effect exemplified by the rates on grain and flour, you have there a parity, an exact equality in the rate on raw material and the rate on the finished product. Is that what you look to as the ultimate objective or is it that you look to neutrality only in the sense that Dr. Stewart spoke of this morning, that you would have the relation reflect the input-output ratio of raw materials to finished products?

A: We would have the relation reflect the input-output ratio.

Q: I am about to suggest to you that actually the equality provided by the rates on grain and flour is the reverse of neutral. Would you agree with that in the sense of Alberta?

A: If I could have it a little further sir.

Q: All right, we will go a little further. Now then, I think you will agree with me that while the milling industry is to some extent less so than others that wheat

does lose weight in the milling process, that is to say, there is some weight loss?

A: Yes, a very slight one, sir.

Q: Now, if there is weight loss your input-output ratio would, on the face of it, allow a higher rate of weight because of the weight loss?

A: No, I don't think so, sir.

Q: Well, that is the very essence of this point I am putting to you. I thought you chose not parity of the rates on raw materials and the rate on finished products but a relationship based upon the relation between the weight of the raw material and the weight of the finished product to be transported?

A: That is right sir.

Q: Now then, there being some loss of weight in wheat in the milling process, the test that you apply would permit a higher rate on flour than om wheat?

A: On flour than on wheat, yes.

Q: I am sorry, perhaps I made that mistake before. Now then, do you also agree that it probably costs somewhat more (I don't want you to be exact because I don't know myself) but do you agree that it probably costs somewhat more to transport flour than it does to transport wheat?

A: I would say yes, it should cost more. How much more I have no idea.

Q: Well, Professor Locklin suggests 25%. I don't know whether that is right or not. It looks as though there are some from his standpoint at least. That should be found at Page 48. It looks as though the cost of carrying flour exceeds the cost of carrying the equivalent amount of wheat by weight?

A: Yes.

[illegible] the milling process, that is [illegible],
[illegible] which [illegible]?

A: Yes, very slight [illegible], sir.

Q: [illegible] there is [illegible]

[illegible]

[illegible] think [illegible], sir.

A: Well, there is a very [illegible]

[illegible] nothing to you. [illegible] difference [illegible] between the weight of the raw material and the weight of the finished [illegible] the mercury [illegible]

Q: [illegible] slight one.

A: [illegible], where [illegible] in the milling process, [illegible]?

Q: [illegible]

A: [illegible]

[illegible]

Q: [illegible]

A: Yes.

Q: Now then, we have that. We have the loss in weight, the weight-losing material, we have the high cost and I think we have a third element; we have some higher value as a resultof the milling process?

A: That is correct sir.

Q: Now then, all those three elements, without attempting to measure them, would rather suggest that the rate on flour should be higher than the rate on, wheat?

A: Yes.

Q: I am suggesting to you that the fact that you have equality of the rate on flour with the rate on wheat, that you have the reverse of neutrality, that you have something operating in the way of rates relation that is more than neutral in favour of the West as regards the establishment of western milling?

A: I do not agree with that, sir. When you compare the situation of the mills in western Canada with those located at Kenora and so on down the line -

Q: You see, you are going from the general to the specific. I am taking you through the theory of this idea of neutrality and you have offered this as an example of neutrality. Now neutrality, as I understand your philosophy, involves that ordinary business will take care of itself, and that Alberta merely wants this neutrality in that portion of the cost of production represented by the cost of transportation. Am I right in that?

A: Yes.

Q. Now, then, I say to you that because of all of the factors that ordinarily would justify a higher rate on flour than on wheat, then an equality of the raw material and the finished product is the reverse of neutrality and is a definite favouring of the west -- quo rate. I am not talking about the industries and the position of industries. There are other advantages and disadvantages. But as to railway rates that is more than merely neutral, it definitely favours the west.

A. We are not talking about the milling in transit privilege at all. We are merely talking about the fact that flour moves at the same rate as wheat without the milling in transit privilege.

Q. The milling in transit is available to both.

A. No, but you see if you bring the milling in transit into it I would say yes to the proposition. If the milling in transit proposition was not in it, that that has a different effect.

Q. At both ends, you mean?

A. Yes, and in the middle, right along.

Q. Well, at both ends. You could mill your wheat in Alberta and ship the finished flour out and you could also mill your wheat in Montreal and ship nothing but flour out and you have there complete equality with no milling in transit.

A. That is right.

Q. So, you could leave out your milling in transit, or if you wanted to make a comparison of any points in between, you would have the same milling in transit at both points in between.

A. Yes.

Q. Let us be fair about this thing, because it seems to me obvious.

A. Yes.

Q. And therefore I am suggesting to you that these relationships between the rates on wheat and the rates on flour are more than mrrely neutral.

A. No, I would not agree with you for this reason, when we are talking about flour, that you do not get a hundred per cent of the wheat turned into flour.

Q. I did not suggest that you did.

A. Then, having regard to the input-output relationship between wheat and flour, the suggestion that the cost of moving flour and so on would change that relationship may not hold at all. You have a whole series of products that you get from the milling process that moves, for instance, I think bran would move at less than wheat.

Q. Well, they actually all move at Crow's Nest Pass rates.

A. Yes, that is the practical --

Q. Well, we will not pursue that any further. Now, then, on page 36, beginning on page 36 and continuing to page 37, you have this to say:

> "A more fundamental disability pertaining to Agreed Charges is the fact that they interfere with legitimate competition from other carriers."

Now, then, --

THE CHAIRMAN: Where is that, Mr. Evans?

MR. EVANS: That is in the first two lines of the paragraph at the bottom of page 37, a more fundamental disability and so on is that they interfere with legitimate competition from other carriers.

THE CHAIRMAN: Yes.

MR. EVANS: Q. Now, then, are you in favour of truckers making contract rates?

A. Yes, I think I am.

Q. But you are not in favour of the railways making contract rates?

A. No.

Q. Now, then, would you think that if the railways are empowered to make rates under contract to compete with carriers that have that right, that that is an interference with legitimate competition, or would you like to qualify it?

A. Well, the problem, as I see it, Mr. Evans, is that you have a unit of transportation, the truck, which is superior in the short haul field. With the railways you have a unit which is sometimes superior in the short haul and always superior in the long haul. By giving the railways the right to make a contract rate you permit them to carry a movement which may encompass a field in which they are not probably the most economic carrier. And in that connection you cut out what I would submit is legitimate competition from a more economic carrier. And then I would say that is the argument I think to justify differing treatment between trucks and railways.

THE CHAIRMAN: Pardon me, would you tell me here before we adjourn, who suffers from this interference, as you put it, with legitimate competition?

A. I think, sir, that first of all it costs more for your total transportation, that is everyone, they pay more in transportation. And secondly, the small shipper in competition, without an agreed charge,

with a large shipper with an agreed charge, suffers by the ability of the railways to make contracts, which is what these are.

Q. The small shippers suffer.

A. Yes.

Q. Well, cannot the small shipper do what he pleases in those cases -- go to the trucks or go to the railways?

A. He can, sir, but the usual way that an agreed charge operates, as I understand it, is that really it is a bargain and they gain a little bit on the long hauls and lose a little bit on the short hauls and unless you have a man who is in the same situation, the man at least without an agreed charge will not be the same, so he is placed at a competitive disadvantage.

THE CHAIRMAN: We will adjourn now until 10:30 a.m. tomorrow morning.

---The Commission adjourned at 4:45 p.m. to meet again on Thursday, December 1, 1949, at 10:~~45~~30 a.m.

A.R.

Canada

ROYAL COMMISSION ON TRANSPORTATION

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57

ROYAL COMMISSION ON TRANSPORTATION

OTTAWA. ONTARIO,
THURSDAY,
DECEMBER 1, 1949.

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HENRY FORBES ANGUS - - COMMISSIONER

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G.R.Hunter,
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OTTAWA, ONTARIO
THURSDAY, DECEMBER 1,1949

MORNING SESSION

MR. EVANS: Mr. Harries.

MR. FRAWLEY: My lord, before Mr. Evans proceeds with his cross-examination of Mr. Harries, may I refer to a reference appearing on page 46 of the brief, about which your lordship asked a question. The reference is to the case of John P. Squire and Co. v. Michigan Central Railway Company; Your lordship called attention to the quotation appearing on page 46, which is as follows:

"In contemplation of the Act, as we interpret it, these competitive articles (live animals and products) are to be treated as one subject by the carriers in providing for their transportation".

THE CHAIRMAN: Pardon me; I appear to have the wrong brief before me.

MR. FRAWLEY: The quotation appears on page 46 of our brief, sir. Your lordship referred to the fact that the decision referred to the Act, and the question was as to what was the Act. First, I must correct that citation; there is an error at the bottom of page 46, in that the citation is 3 I.C.C. and not as appears 4 I.C.C.; further, the page reference should be 515. The reference we have in mind appears at page 520, and further at 523. I am sorry about the reference being incorrect, my lord, and with the help of the librarian in the Supreme Court library I was able to find the case.

As I say, it is found at 3 I.C.C., and commences at page 515. I wish to read first from page 520. This is what the Interstate Commerce Commission says, at page 520:

"The provisions of the third section of the law are invoked as giving authority

for making proper relative rates. That section provides 'that it shall be unlawful for any common carrier to make or give any undue or unreasonable preference or advantage to any particular person, company , firm, corporation or locality or any particular descriptionm of traffic in any respect whatsoever'.

The third section of the law to which they refer is the third section of the Interstate Commerce Act. I will refer to that again in a moment.

Referring again to page 523 of this report, there appears the exact quotation which is found at page 46 of our brief, which I shall read:

"In contemplation of the Act, as we interpret it, these competitive articles are to be treated as one subject by the carriers in providing for their transportation".

The interesting point which I wish to call to the attention of the Commission is that the Interstate Commerce Act, as we find it today -- and I have it completely revised to January 1, 1946, and note that Section 3 reads just as it did, or substantially so, in 1891, at the time this case was decided. I will read the pertinent parts of Section 3. Section 3 (1) is as follows:

"It shall be unlawful for any common carrier subject to the provisions of this part to make, give, or cause any undue or unreasonable preference or advantage to any particular person, company, or firm, corporation, association, locality, port, port district, gateway, transit point, region, district, territory, or any particular description of traffic, in any respect whatsoever";

Finally, I wish to call attention to our own legislation, which is subsection 3 of section 316 . Paragraph (a)

sub
of/Section 3 of Section 316 reads as follows:

"No company shall. (a) make or give any undue or unreasonable preference or advantage to, or in favour of any particular person or company, or any particular description of traffic, in any respect whatsoever;"

I do not wish to go into the matter further at the moment, as there will be an opportunity to do so later; I did, however, wish to correct the unforunate error in the citation of the case, and to answer your lardship's question as to what the Act was that the Board had in mind when they made their remark in that case.

THE CHAIRMAN: Do you or do you not see any substantial difference between this United States legislation and our own?

mMR. FRAWLEY: I would say, my lord, that I see no substantial difference; however that is something that we might wish to go into more completely later on.

MR. EVANS: I might ask the Commission, in the same context, to look at the provisions of subsection 4 of section 314.

THE CHAIRMAN: What Act?

MR. EVANS: Of our Act. That is the provision which prohibits discrimination between localities. Then section 325 enables the Board to disallow any tariff which is unjust and unreasonable. I just put those in to make the record complete.

THE CHAIRMAN: Mr. Evans, do you see any difference between the American legislation and our own?

MR. EVANS: Substantially no, but there are technical differences; they I think, are inclined to interpret their statute a little more narrowly then we have, with the result that section 3, which originally confined itself to a

prohibition against injustice, preference and unreasonable advantage, and so on, to localities and to persons, has now been extended so that the prohibition applies to transit points, ports, and a lot of other things. With my limited knowledge, this would indicate that at some time or other a narrow construction has been placed on such words as "localities" and "persons", and it has become necessary to broaden the provision.

In so far as our Act is concerned, I know of no case where the Board has interpreted "persons" or "localities" so narrowly as might have required that kind of change in our Act. I do however, recall one case, to which I intend to refer at some later time, and which illustrates the Board's willingness to consider complaints for parties in interest. That may be one of the reasons why the Interstate Commerce Act had to be changed. The Board interpreted "party in interest" as somebody not directly interested in the rates at all.

In the Inland Steamship/Case, which is a comparatively recent case, and in which I appeared, the complaint there arose as to whether a steamship company complaining to the Board that shippers via its steamship lines at Montreal could have the benefit of export rates; when the question as to whether the steamship company was a party in interest was raised the Board said: yes, although they are not interested in the rates as such, they are interested in them from the standpoint of traffic which may develop, and that such a person should be able to come in and complain of discrimination and so on.

THE CHAIRMAN: I take it you mean that the company said, in effect--our ships go to such and such a port, and there would be more business for us at that port if the rates were so and so.

MR. EVANS: Yes. I remember this case of the Inland Steamship Company quite well.

MR. FRAWLEY: What is the name of the case?

MR. EVANS: I will get the citation later. The Inland Steamship Company does not operate in the Harbour Commission property in Montreal, but rather in part of what is known as the Lachine Basin, to the north of the Harbour Commission property; and they wanted to be sure that shippers who were shipping traffic for export could get the benefit of export rates. The railways took the position that the export rate could only be applied through the Harbour Commission property, where the railways could be sure that the traffic was in fact exported. The difficulty was as to whether there had to be some policing of this traffic to see that the railway rate for export was being applied to export traffic.

The complaint of the Steamship Company was that they were being deprived of traffic, because the export rate did not apply through their basin. The Board held that they were an interested party within the meaning of Section 33 of the Railway Act.

THE CHAIRMAN: How far did the Board go toward upholdig their contention?

MR. EVANS: The Board dismissed the complaint put in, on the ground that --

THE CHAIRMAN: But you say the Board held that they were entitled to be heard.

MR. EVANS: That is right.

THE CHAIRMAN: And then decided against them?

MR. EVANS: Yes, on the merits.

THE CHAIRMAN: I understand that we will deal with this matter later on?

MR. EVANS: I will give the Commission the reference to it.

MR. HU HARRIES RECALLED

CROSS-EXAMINATION BY MR. EVANS CONTINUED

Q. At the adjournment yesterday, Mr. Harries, you had given me an answer in connection with your complaint against agreed charges, which I now wish to follow up. At page 10914 you said in part as follows:

"By giving the railways the right to make a contract rate you permit them to carry a movement which may encompass a field in which they are not probably the most economic carrier".

A. Yes.

Q. Now will you take your mind back to that point? By that answer you mean that if a railway is to be permitted to make an agreed charge, it will compel a shipper to ship for a very short distance which, you think, from the standpoint of economics could be properly shipped by truck? Is that what you mean?

A. That is it, yes sir.

Q. I put this to you, is it not equally probable that a trucker,free to make contracts,will tend to carry traffic for longer distances than might be found to be within the economic sphere of the motor vehicle?

A. There is a possibility of that.

Q. So that when we get down to it, there is a possibility of transgressing the economic spheres, as a reason against an agreed charge? I think you would go with me to this point, it also would be an objection to the making of contracts by truckers?

A. Not as much, sir, as the railways can move goods at a lesser cost for a longer distance than a truck can; I would say that the probability is that more detriment will arise from the fact that the railways were allowed to make contracts,than is the probability in connection with the

truckers.

Q. Now, let us examine that answer. Have you ever made any study to determine where the economic sphere of the truck may lie in point of distance?

A. No I have not.

Q. And have you not heard of extremely long truck hauls by these contract truckers?

A. Yes.

Q. Are you familiar with them?

A. Yes.

Q. I put this question to you, there has never been an economic sphere determined for trucks or railways in competition with one another, to your knowledge?

A. Well, sir, there have been; I am aware of studies which have attempted to do that. The degree of success that they have had, I am not in a position to appraise. I take the study, and depending on who did it, I think it would have some validity.

Q. A great many questions arise as to that.

A. It is an extremely difficult question.

Q. In order to put the matter simply, let us state it this way: it seems to be agreed that short hauls -- very short hauls -- are in most cases within the economic sphere of trucks, and in the case of railways there may be great doubt as to the economic sphere of the railway to make short hauls.

A. That is on carload traffic?

Q. I do not want to differentiate; I just want to get the general point. I am not suggesting a mileage, but just speaking of the economic sphere for trucks to within a very short mileage.

A. As I see it in my own mind, I would differentiate between l.c.l. and carload. When you say "a very short

mileage", I will admit that it is short mileage.

Q. That is what I want. I do not wish to pin you down on it, but the upper bracket there may be the sphere that is exclusively the railways, so far as the economic sphere is concerned.

A. Yes sir.

Q. In between those there is quite some mileage --- would you think a range of several hundred miles?

A. Yes.

Q. There is a competitive sphere, is that not true?

A. Yes.

Q. All I am putting to you is this: you suggest that there is a great deal of danger of the railway getting out of its economic sphere, if it makes contracts, and that there is more danger there than in the case of truckers. I should like you to tell me why?

A. The railway is free to make a competitive rate to meet truck competition in our opinion. It is explained later in a brief on the rate structure and rate principle. Our view is that the railways should be allowed that freedom to make competitive rates ---

Q. I see that you are not answering my question, Mr. Harries.

A. I was going to try and develop it a little further, if I may.

Q. All right, will you got a little further.

A. Therefore we think that the problem of competition between the motor truck carriers and the railways is taken care of by the ability of the railway to make those competitive rates. We look on agreed charges as a method by which the railways are able to contract for movements which, in fact, they could not get by competitive rate, because of the uneconomic character of the particular traffic

which they are handling, so far as their facilities and costs are concerned.

Q. But, a truck rarely is found to carry all of the traffic that is offered to it, and may as a rule pick and choose traffic. Is that not true?

A. Any particular truck?

Q. As a general rule, the trucking industry is not under compulsion to carry all types of traffic, as is a railway?

A. In Alberta, sir, there is a section in the Act which indicates that that would not be the case.

Q. Is it a fact that that section is used, and have you ever known of a prosecution of a trucker for failing to provide the necessary capacity to carry all the traffic that was offered to him.

A. In connection with that section the Secretary of the Highway Traffic Board in Alberta informs me that there has never been a prosecution under that section, but that they have investigated complaints, and have threatened the particular trucker with either prosecution or withdrawal of his license, if he did not do what the Act said he should. The Secretary also said that there had not been many complaints under that section.

Q. I suppose the fact is that we can always be sure that the traffic will be carried by the railway if they haven't got enough trucks. The point I put to you is this: does the section say that if a trucker, having one truck, is presented with traffic that requires the use of ten trucks, that he has got to go out and provide those ten trucks?

A. I do not think you could read that into the section, no.

Q. That is all I am putting to you. Actually, it gets down to this, that as a matter of practice, in the absence

of some provision in the regulations that requires a trucker to provide that capacity to give adequate service, he is in a position to select traffic. Is that not the plain common sense view of the inevitable result?

A. For any particular trucker that might be correct, but taking the truckers, in any particular district, if there is anything but a momentary demand for extra facilities, I do not think it would be correct. There is a comparison there; something like the comparison that we might find in connection with the livestock movements on the railway.

Q. Now, I do not wish to be interminable with this question, but what I am trying to get from you is this: the trucker --- and I am speaking more generally of the truckers in the East, where these competitive rates are supposed to be more frequently met with --- is by and large a carrier of what we might call higher grade commodities in a classification?

A. I don't know what the situation is in the East.

Q. The fact is that the agreed charges really all relate to those higher grade commodities?

A. The three that I know of in Alberta relate to lumber, butter and petroleum products.

Q. They would certainly rate higher than the very raw materials?

A. Yes, they would.

Q. I think you and I can get down to this, that there is nothing very complex about the approach I am making to it. I am suggesting to you that the trucker, whether or not we may disagree on the degree to which he is selective, tends to be more selective than the railway companies. Is that not a fair statement?

A. He tends to be, yes.

Q. Is there any regulation in Alberta to prevent the trucker from making a rate for one shipper, which he does not extend to another?

A. Nothing at all.

Q. Have you never heard of cases where the shipper, having got the railway to make a rate to meet competition, has then gone around to the truckers and has told them that the railway has offered him such and such a rate, and what will they do for him. Have you ever heard of a case like that?

A. I understand that there have been some, yes.

Q. Does that not suggest to you as it does to me, that unless there is some kind of contract binding the shippers to use the rates, that the publishing of a competitive rate can in many cases merely result in a further bargaining between the shipper and trucker, and a further cut in the rates?

A. No, I am afraid I could not agree with that sir, because if you put in competitive rates the trucker may cut them immediately, and he may take the traffic for a month, or two, or three, or even half a year; but, if he is loosing money on that traffic, then the railway is going to get it sooner or later; and if he is moving it at a profit, then the railways'competitive rate is too high.

Q. In the meantime, the railway is losing money on the traffic it does get, all for no purpose. Supposing the railway is carrying 20% or even 50% of the traffic, and it wants to get some of the balance of that traffic, and puts in competitive rates, but gets none of the traffic for some months, it loses revenue on that traffic which it has, and does so without any advantage to itself?

A. That is correct; and that would be one of the things that I think could be taken into account on the competitive rates.

(Page 10936 follows)

Q. That is what we do on agreed charges. I was wondering if you knew that in a number of agreed charges the shipper has a freedom to truck up to forty or fifty miles?

A. I knew that sometimes all of the traffic is not covered.

Q. That is not the question I asked you. Did you know or did you not know that some of these agreed charges have provisions enabling the shipper to ship by truck within a certain mileage?

A. No, I don't know that.

Q. If that were so, would it not be an answer to your suggestion that the railway is invading the economic field of the trucker?

A. It would only be an answer if that was characteristic of agreed charges where a truck could haul it.

Q. Is not that a matter of bargaining?

A. No, sir: for instance, take the agreed charge out of Alix on butter, as far as I know there is no stipulation with regard to the distance or the using of truckers for a short distance in connection with that agreed charge, and it seems to me that the basis of that agreed charge is that if the Central Alberta Dairy Pool will pay a little higher rate, really a rate higher than they got from the trucks, for hauling butter to Calgary and Edmonton, they will get a slightly reduced rate in hauling butter to Vancouver.

Q. Would you suggest that the railway should stop publishing tariffs for a distance of forty or fifty miles?

A. No, if they can't haul it at a compensatory rate.

[illegible]

Q. . Suppose it were decided that it was the economic sphere for a railway to haul anything up to fifty miles, would you say it was uneconomic for the railway not to take that?

A. It is never out of their economic sphere if you put the rates at a high level.

Q. Your suggestion is that you put these rates at such a high level that no traffic was carried ?

A. Yes.

Q. That would exist if the trucker was competing, or not?

A. It would exist where the railway was trying to make money on that haul.

Q. It would have to be on short hauls, and you would have them put the rates on all short hauls to get them into the compensatory area of revenue?

A. Yes.

Q. And therefore the railway would be free under your system; instead of trying to carry the traffic, to put the rates up notwithstanding that there might not be competition there, and notwithstanding that the shippers in these short distances may not be able to get any alternative means of transportation?

A. It would result in a rate of taper on the rates.

Q. It would very substantially increase them in many cases?

A. I don't know.

Q. Perhaps, I should give the Commission this information. Agreed Charge No. 11, which applies in Ontario gives the shipper the right to truck from marine tanks and refineries for delivery to storage tanks in tanks of any capacity for a distance not exceeding forty

miles.

MR. FRAWLEY: That is the petroleum Agreed Charge?

MR. EVANS: Yes. From marine tanks of a capacity of 1200 gallons for a distance of forty miles; from tank stations on railways, in trucks of any capacity for any distance whenever the railway has received a road haul for a distance not less than that to the railway tank station nearest to the final destination. Agreed Charge No. 14 has similar provisions. In the Agreed Charge on Petroleum Products No. 36 from Calgary and Valesso,Alberta to points in Alberta and Saskatchewan, the following exception appears:

> "The shipper shall be at liberty without infringing the provisions of this Agreement to ship the said traffic from Calgary,Alberta in trucks of a tank capacity not exceeding 2500 gallons, for distances not exceeding 50 miles of highway... and in the case of products shipped by rail from Calgary to any station or place distant not less than 50 miles therefrom, may transfer such products by truck to any nearby agency."

Then in Agreed Charge No. 37 , Petroleum Products from Borradaile, Alberta, Lloydminster, Alberta - Saskatchewan and Lone Rock, Saskatchewan,to points in Alberta and Saskatchewan. There were four agreed charges to which I referred, and there is some suggestion that I made a mistake in giving a number. The first was No. 11 and the second was No. 14.

MR. FRAWLEY: Where is No. 14?

MR. EVANS: That is from refineries, marine terminals and storage tanks in the province of Quebec to points in Quebec and Ontario. No. 36 is for Petroleum

Products from Borradaile Alberta, Lloydminster, Alberta, and so on.

Q. Now, then, have you investigated the relative preponderance of this so-called truckers to the common carrier truckers in Canada?

A. No, sir.

Q. Would you be surprised to know that they do not preponder and there are really more contract truckers than common carrier truckers?

A. I have no opinion on that.

Q. I tried to find the full information, but I can give you this as a suggestion. In the transcript of evidence at pages 2535 to 2536, Mr. Brown gave a figure of 3,700 licensees and of that amount a few hundred were common carriers. That was in British Columbia. Then in Ontario, my instructions are, that the Class A or common carriers totalled 256, and that Class C or contract carriers totalled 741, and the Class D contract carrier totalled 295, making the total of the contract carriers roughly four times the amount of common carrier operators?

A. These are firms?

Q. These are licensed operators. In the case of Ontario it is only fair to say to you that the common carriers have a larger number of vehicles in operation . The licensees are greater in the case of contract carriers. In the case of British Columbia, the figures I gave you are for vehicles, and therefore show not only operators but the number of vehicles engaged. Do you know of any fact that would suggest that that situation is not characteristic of the motor truck industry as a whole in Canada?

A. No, I do not.

Q. Apart from the Province of Alberta, where it is clear there is no regulation of truckers' rates, it is pretty

clear that there are only a few of the provinces where there is any regulation of rates.

MR. FRAWLEY: Yes, the record now is that New Brunswick and Nova Scotia are in the same situation with regard to regulation of rates.

MR. EVANS: Q. In view of the fact that that is so and of the discussion we have had, you still do ordo not adhere to your view that it is more likely that the railways will encroach on other than their economic sphere to a greater extent than trucks are likely to do?

A. Yes, I do, sir.

Q. So you are prepared to go this far, that having regard to the fact that, as everybody admits, railways are bound to carry the traffic offered and bound to give adequate service and cannot abandon their services without authority, while trucks can do so, would you deny to the railways the right to make some kind of contract that their competitors have the right to do; you are sticking to that?

A. Yes, sir.

Q. On page 37 you speak of the position of the small shipper and at the beginning of the first complete paragraph, you say this, that the position of the small shipper is made difficult by Agreed Charges.

THE CHAIRMAN: What page is that?

MR. EVANS: Page 37, sir.

Q. "The Transport Act provides that if it be proved that a contract unjustly discriminates against a competing shipper that shipper may ask for similar treatment. The complaining shipper must show that 'substantially similar circumstances and conditions' prevail. This is a most difficult requirement and indeed having in mind that two plants in an industry seldom have similar conditions as to their marketing

requirements, it is very likely to be an impossible one."

Now, the first thing I want to ask you about is in the case of the small shipper:Do you know of any case where a small shipper was denied the right to come in and have a fixed charge equal to the agreed charge made for him because of his size or the volume of his traffic?

A. No.

Q. Do you know of any shipper who was prepared to make a contract on the same terms,who has been denied the right to that same charge?

A. No.

Q. Now then, I suppose you will agree with me this far that the small shipper can only suffer a disadvantage if he could not ship by truck?

A. No, I would not.

Q. You would not agree with that?

A. No.

Q. Does that mean that your suggestion is that if you have a shipper in an area where there is an agreed charge, a small shipper--he could not get in on the Agreed Charge? Does that amount to that? You are suggesting that a shipper has not got truck transport available to him and yet he is deprived of the Agreed Charge?

A. No,sir, I am not suggesting that. By giving you an example I may make this language clear. What I had in mind was, first of all, as illustrated by the Lion Oil Case that a small company manufacturer may not have the facilities to take advantage of the Agreed Charge, and that may be one reason why you get the small shipper at a disadvantage, but another reason, might I suggest, would be this: If you have a large company with an Agreed Charge and let us suppose that 50% of its market is within 100 miles of its point of production

and 25% is over ,200 miles, which would be called a long haul, then on the small shipper the effect of that Agreed Charge is, I believe, to probably increase the cost of transportation within the first 100 miles and to decrease it on the longer haul so that the net effect so far as the shipper is concerned is probably a saving in transportation cost.

(Page 10949 follows)

Q. Now, I am sure that I am equally to blame that we are getting at cross-purposes, but that is certainly not an answer to the question I asked. You see, the question I am putting to you is this: You say that the small shipper is deprived of the agreed charge and I am putting it to you that he is in fact never deprived unless he wants to ship by truck. Isn't that so?

A. I did not say he was deprived of the agreed charge; I said he was not in a position to take advantage of it, sir.

Q. I am saying because he prefered to ship either the whole or a greater portion than is covered by the agreed charge of his traffic by truck?

A. That is right.

Q. Now then, how is a shipper, the small shipper at a disadvantage assuming the agreed charge is not lower than the competition requires? Would he come into alternative means of transport at this low rate?

A. The example I was going to give you would have demonstrated that, but I will simply say that on long hauls he is at a disadvantage because the man with an agreed charge will have a lower rate than he will.

Q. Then why doesn't he come along and take the agreed charge?

A. Because of the relative proportion of his long and short haul business. If it differed from the man with the agreed charge then he would be the loser.

Q. I suppose you think then, that the agreed charge is to see everybody in the same position dollar-wise in the cost of production because that is what it amounts to, and you are suggesting that because one shipper may have a different proportion of his product distributed in different mileages, that he should have some kind of a special agreed

charge and not merely the agreed charge that other people are willing to contract for?

A. No sir, I am suggesting that as far as the railways are concerned, shippers regardless of whether they are big or small should be treated alike and that size and differing market competition and so on should not be a justification for a different rate and I am suggesting that when you have agreed charges, that is what happens, and that is why I suggest that agreed charges are not good from the standpoint of the small shipper.

Q. Well, I think it is quite apparent. I don't want to argue with you, but it seems to me when you get down to saying that the small shipper cannot take the agreed charge because he has a different proportion moving different mileages that he is trying to get the advantage of truck competition for a greater proportion of his movements and still complaining that he does not get the advantage of the agreed charge for the other proportion. That is what it really amounts to?

A. No, he is getting different treatment from the railway on the long haul traffic.

Q. How, if he can come in and get the agreed charge, is he getting different treatment?

A. Well, the small shipper, 10 per cent. of his business, we will say, goes long haul. It may be extremely important to him, and he pays the higher rate on that than the man on the agreed charge.

COMMISSIONER ANGUS: Mr. Evans, can you clear up one point for me? In the Transport Act, Section 35 (6) it says:

"If a shipper considers that his business would be unjustly discriminated against, he may come to the Board - -"

and then in the last line of that Section:

"If the Board is satisfied that the business of the shipper will be or has been so unjustly discriminated against, it may fix a charge including the conditions to be attached thereto, to be made by such carrier for the transport of such goods."

If the Board fixes the conditions, need those conditions be identical with the conditions in an agreed charge contract?

MR. EVANS: I have not considered that, but in practice they usually are. There is nothing, of course, to prevent that particular shipper, if he cannot meet those identical conditions, from trying to negotiate a different agreed charge with different conditions. There is nothing in the world to preclude that, but when it comes to showing unjust discrimination I think, generally speaking at least, the important conditions would be the same in practice. I know of no case where that has not been done.

COMMISSIONER ANGUS: This thing seems to give the Board a little latitude in particular cases.

MR. EVANS: I think there had to be some latitude. For the purpose of considering the important conditions, the practice was invariably the same. There must be some latitude in the Board to make an obvious difference where it is not the material matter in the contract, but I will be glad to look into that and see whether they have ever made any departure from any of the conditions in fixing these charges.

COMMISSIONER ANGUS: Whether they ever did that or whether they have committed themselves to the proposition that this really means that the conditions must be substantially identical.

MR. EVANS: I think it probably comes down to this, sir, that if a shipper should complain and should establish that he is unjustly discriminated against, and he asks for some change in the conditions because he cannot live up to them, the materiality of the change would be the deciding factor so far as the railways are concerned, and I know of no case where there has been any material change in any of the conditions under those circumstances. But on the other hand, we never fight that fellow. If he can come in and ask for this charge, we give it to him if he can show that he is affected adversely by the charge. I would be glad to inquire and see whether in fact that ever has been -

THE CHAIRMAN: Well, this sub-section that my colleague has just read does appear to give the Board very wide power to make the contract with the shipper?

MR. EVANS: Oh yes sir .

THE CHAIRMAN: That is to fix the sort of contract between the shipper with the grievance and the railway?

MR. EVANS: Yes.

THE CHAIRMAN: Because it not only authorizes the Board to fix a charge without seeing that charge, but also to fix the conditions?

MR. EVANS: Yes.

THE CHAIRMAN: "The Board may fix a charge including the conditions to be attached thereto".

MR. EVANS: Yes.

THE CHAIRMAN: "- to be made by such carrier for the transportation of such goods".

MR. EVANS: Yes.

THE CHAIRMAN: I do not see any limitation there upon the Board unless you might say that it is not intended that they should in this case go so far as to give an unjustly discriminatory preference to the agreed shipper against other people?

MR. EVANS: I think it really comes down to this, sir, that if a man claims to be unjustly discriminated against, then the Board's duty under the Railway Act as well as under this Act is to remove the discrimination. Within the limitation of the removal of the discrimination complained of it has pretty broad powers.

THE CHAIRMAN: This removal that you talk about there would only operate in favor of this one shipper and not upon other shippers. Just this one shipper would complain that he has a grievance on account of this contract; then the Board says"All right,we will make a contract for you for the same sort of business. We will lay down conditions which will bind him and the railway and we will fix the charge"?

MR. EVANS: That is right, sir.

THE CHAIRMAN: I mean I do not see any limitation?

MR. EVANS: I am merely saying that in practice the limitation must be this, that the powers of the Board - the Board has no power to be arbitrary about these things. Its power is to remove discrimination and I think the correct interpretation of the Act would be that the Board's powers are unlimited when it comes to the removal of discrimination. As long as it requires the railway to remove that discrimination, then I don't think it could fix different conditions.

THE CHAIRMAN: I suppose its objective would be,

of course, to remove the discrimination against the shipper who comes in to complain that he has been discriminated against, but then as a result of their hearing the Act says:

> "That the Board may fix a charge including the conditions to be attached thereto..."

and then it tells the shipper :

> "Now, you can ship your goods by the railway but on certain conditions",

and the conditions, I would imagine, that this shipper is to observe might not be the same as the party to the agreed charge. For instance, the proportion of his goods to be shipped may be different, don't you think? What is to prevent that?

MR. EVANS: I think that might be a material fact. It might be considered by us that that would be material and it would be a difference in circumstances and conditions.

THE CHAIRMAN: I know you might arrive at that but how would you get the Board to accept your language in view of the broad language of the statute? The statute says "The Board may fix and change and attach conditions thereto"; it does not say what conditions. I am just wondering whether this does not form a fairly good answer to Mr. Harries' contention.

MR. EVANS: I would not want the Commission to take my view for other than what it is.

THE CHAIRMAN: But it would be very, very useful if you knew of any case decided under this sub-section.

MR. EVANS: I do not know because I know very, very few where that section has been invoked. When the complaint is registered, we give the charge almost automatically to the complaining shipper but I do not want the Commission to

feel that I would take advantage of that section to answer Mr. Harries when I have a different view as to how it would be interpreted. I think the correct interpretation of that section is that the Board's power is not unlimited because it would never be intended to exercise a power that goes beyond the nature of the complaint, that is to say, to remove the discrimination complained of.

THE CHAIRMAN: I can quite understand the railway taking that attitude before the Board, but that does not say that necessarily defines the real jurisdiction of the Board, so that if you had any case already decided interpreting this language, one way or the other, the way you contend it ought to be interpreted or otherwise, we would like very much to have it.

MR. EVANS: If I can find it, I will do so, but I do not think that it exists.

THE CHAIRMAN: Do you know of anything, Mr. Frawley?

MR. FRAWLEY: No, I have just seen the Lion Oil Company Case at 50 C.R.C. but I am not familiar enough with it to make a statement, but Mr. O'Donnell has had wide experience in the agreed charges section.

THE CHAIRMAN: You see, at first blush one might say "Well, here is your answer ; just go to the Board and they will make a contract they deem to be more suitable".

MR. FRAWLEY: Yes, and it might take care of what Mr. Harries points out as to the difficulty of the small business man.

MR. EVANS: Here is perhaps, some light on the subject. It is not quite on the point, your lordship, which you raised but, I think it would be worthwhile having it on the record. Here is a reference from Mr.

Coyne's book.

THE CHAIRMAN: Dr. Angus raised the point; I was just elaborating it.

MR. EVANS: Well, I am sorry, but at all events I have a reference to Mr. Coyne's book. Mr. Coyne is counsel for the Board of Transport Commissioners and his book is The Railway Law of Canada and at page 620 this reference appears:

> "Where a shipper alleged that its business had been unjustly discriminated against as the result of the making of an agreed charge, the Board refused to fix a charge for such shipper under Section 35 (6) on terms and conditions which would be much more favorable to such shipper than those contained in the agreed charge".

And the case given for that was the Good Rich Refinery Company Limited v Canadian Railway Association 57 C.R.T.C. 140, and there is another case referred to. My friend's Lion Oil case is referred to in 50 C.R.T.C. 156 and Canadian National v Good Rich in the same volume 50 C.R.T.C. 161, and it would seem to me that that is good law, sir.

THE CHAIRMAN: Yes, I suppose it means that the Board would see to it that the tables were not turned so that the complainant would receive an unjust discrimination in his favor. I suppose they would limit themselves that way, but within that limitation I do not see anything to bind them as to the kind of a contract they make.

MR. EVANS: Now, in order to get this thing as clear as we may do, without wasting too much time on it, I want to say th , that the Act provides that the shipper can object in the first instance and he may succeed in preventing the agreed charge being made at all, and then he can come

along, at any time as well as in the first instance and he can have this charge fixed for him.

THE CHAIRMAN: Now, to come down to your first instance, when does the agreed shipper know that this agreed charge is made? When does he first know or how?

MR. EVANS: He gets a good deal of notice under Section 35.

THE CHAIRMAN: We had all that before, I think.

MR. EVANS: Yes. I am quite willing to give it to your lordship again.

THE CHAIRMAN: Anyhow, he gets to know it because there is some publicity given to the fact that the decision has been made?

MR. EVANS: Yes.

THE CHAIRMAN: And we have had the complaint that this publicity is not sufficient to reach all these parties.

MR. EVANS: I think the complaint about the lack of notice is more particularly related to the ordinary tariff procedure than to the agreed charge, because the agreed charge gets two things that have been asked for in connection with rate making generally. It gets prior hearing by the Board before it comes into effect and it cannot go into effect until it is approved. It gets consideration of the revenue effect on the carrier prior to the thing going into effect, and it gets added publicity. There are those three things.

COMMISSIONER ANGUS: Mr. Evans, I should like to make my question just a little bit more precise in this way. I am not suggesting that the Board would ever use this power except to remove injustices and to create

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COMMISSIONER ANGUS: Mr. Evans, I should like to make my question just a little bit more precise in this way. I am not suggesting that the Board would ever use this power except to remove injustices and to create

something that is just, and I fully agree it is limited there, but within that range it seems to me that there may be a good deal of latitude for opinion and for the development of practice,and perhaps I can clarify that by an example. Supposing an agreed charge is made for a shipper who has very little short-distance traffic, and he agrees to ship all his goods by rail. Supposing that someone else asks for that charge who has a great deal of short-distance traffic and also some long distance traffic. The condition that was quite reasonable for A might seem to someone to be quite unreasonable for B. In what circumstances would the Board be free to act?

MR. EVANS: Well, I can say this much, that the rates in the agreed charge must be expressed in cents per hundred pounds,and they are usually expressed in cents per hundred pounds in mileage tables setting forth in the agreed charges that those rates apply for those mileages and if a condition arose where the original shipper getting the agreed charge had more of the long-haul traffic than the complaining shipper, the complaining shipper would still have the benefit only of that agreed-on rate because otherwise you would have claims of discrimination brought by the people even though they were not parties to the agreed charge.

MR. FRAWLEY: I do not wish it to be said, sir, that the general provisions with regard to discrimination in the Railway Act are not of great importance in considering the kind of discrimination with respect to which Part 5 of the Transport Act concerns itself and that Part 5 of the Transport Act is a code in itself and that the discrimination which must be settled there is limited and confined to the kind of discrimination which is there

asserted, and if that interpretation were taken, then with respect,the suggestion made by Mr. Commissioner Angus would be taken care of.

MR. EVANS: Well, of course, I think it is perfectly clear that Part 5 of the Transport Act is not a code in itself because if the Commission will look at Part 1, Part 1 deals with the Board of Railway Commissioners for Canada--now the Board of Transport Commissioners. It says that the provisions of the Railway Act regulating sittings of the Board and so on will apply.

THE CHAIRMAN: I think sub-sections 2 and 3 make it clear that it is a co-ordinating body.

MR. EVANS: Yes, and there are other sections I am sure. Yes, sub-section 2 of the Definitions Section; "Unless it is otherwise provided or the context otherwise requires, the expressions contained in this Act will have the same meaning as in the Railway Act" that would include unjust discrimination.

MR. FRAWLEY: I would suggest, if my friend is right, I think we have to go into it a little further, and we will have an opportunity for that, but if my friend is right and a shipper feels he has been hurt by the provision of an agreed charge, and he is bound by all of those proceedings in the jurisprudence of the Board with respect to undue preference and unjust discrimination, then nothing has been accomplished in Part 5.

THE CHAIRMAN: Otherwise, there would be no use in legislating at all? This Transport Act does say that the Board may in the conjuncture which we have before us, fix a charge, and fix conditions. That must mean to remove the greivance which the other man was complaining about.

MR. FRAWLEY: My view would be, at the moment, sir, that if he should that this agreed charge hurt his business

merely distance-wise, as we have been discussing this morning, that if he showed that that would be a case that would come under sub-section 6, but if he had to show an unjust and undue discrimination which has grown into a very formidable precedent in the jurisprudence of the Board, then, I say, he has much more to prove than one would have thought he had, under sub-section 6.

THE CHAIRMAN: However, it may be on a complete examination of that sub-section 6 that the matter is already taken care of by legislation, and that the only alternative then, would be to simply repeal the whole provision. That is, on the one hand the contention is that these agreed charges are unjust and should not exist, and then the answer comes along: "Well, the Board has power in the case of injustice to put it right and to go so far as to make conditions and fix charges." Well, if that does not sufficiently remove whatever injustice exists, then the only remaining argument to be advanced by those against the fixed charges is to repeal the whole provision.

MR. EVANS: My submission will be in due course that these complaints about the way the agreed charges operate are absolutely without any substance whatever,. and we do not have shippers coming along and complaining about these things.

THE CHAIRMAN: I expect you will argue that?

MR. FRAWLEY: For my friend to say we do not have shippers coming along, we have the Good Rich Co. the Lion Oil Co. -

MR. O'DONNELL: All we have coming along in these cases is that we have before the Court the evidence

that those particular shippers did not wish to distribute their products in the manner that the other shippers did who applied for the agreed charge. In other words, this whole question was reviewed in detail in the McColl-Frontenac Case. It was a question as between two systems of transportation, and all the Board said is, that the shippers could not have the benefits of both systems of distributing if they wished to have an agreed charge. If they wished an agreed charge, they must take the bitter with the sweet as far as freight rates are concerned, and forgo the truck distribution. Now, in the McColl-Frontenac agreed charge with respect to the distribution of crude oil or rather finished petroleum products in Saskatchewan, those who accepted the terms of the agreed charge forwent a whole array of things. They forwent the right to import gasoline and to short-haul it from the international boundary into Saskatchewan, and distribute it that way. They forwent the right to refine crude oil in a refinery which they were going to build. By accepting the agreed charge which was negotiated and concerning which any one that has any interest whatever has a right to hear, as they did, and object, the McColl-Frontenac Company had to forgo the benefits of a distribution by truck, and that is most evident when we read those cases of Good Rich and the Lion Oil. The Lion Oil Company and the Good Rich Company both wanted to retain the right to make a certain distribution by truck, whereas if they came into the agreed charge they would have to forgo that.

I don't want to take time going into those cases but it is evident that on those very facts the Board held there was absolutely no discrimination against

them in any way whatsoever and that they were not entitled to complain or rather the grounds of their complaints were without foundation because all they were trying to do was to continue to make part of their distribution, or a substantial portion of it, by truck, whereas, if they entered into the agreed charge, they could not do that, and the Board pointed out in the Good Rich Case that the Company has had in its power to meet all the objections which it laid before the Board in order to place it on an equality in every respect, with the other oil companies, to carry on business throughout the Province of Ontario. "I find as a fact that the agreed charge does not result in unjust discrimination to the Good Rich Company."

(Page 10969 follows)

THE CHAIRMAN: I suppose that in every respect means as far as the railway transportation is concerned?

MR. O'DONNELL: Yes, if they wanted to adopt a system of distribution it was open for them to do so. It was a matter of these two systems of distribution.

MR. FRAWLEY: I only mention the Lion Oil and the Good Rich case because my friend said the shippers are not coming to the Board in these cases. I do not want to leave any inference that the Province of Alberta was presenting this Agreed Charge case in a vacuum.

THE CHAIRMAN: The purpose of this discussion is as to whether the Act provides any sufficient remedy for grievances?

MR. FRAWLEY: On the question raised by Commissioner Angus, I found it very interesting. We can find very little substance in the argument by the Board as to these small shippers.

MR. O'DONNELL: I say that under the Act a small shipper is given every protection.

THE CHAIRMAN: What effect has all that on the witness?

MR. EVANS: Perhaps, he has changed his mind.

COMMISSIONER INNIS: In the matter of fixed charges, can you say how many of them were concerned in the movement of oil, Mr. Evans?

MR. O'DONNELL: Four; there have been 42 altogether.

MR. FRAWLEY: The volume is pretty large.

COMMISSIONER INNIS: Has the volume been larger for these four?

MR. O'DONNELL: No.

MR. EVANS: The point, I think, is this that although there are four agreed charges, there may be producers who are parties to it getting the benefit.

COMMISSIONER INNIS: I was wondering whether the

the railways were indirectly subsidizing a contract on agreed charges in the oil cases.

MR. EVANS: I think you have to look at it in two compartments, that the agreed charges are compensatory and if they are ---

MR. O'DONNELL: They must be compensatory because the net revenue of the carrier has to be affected.

THE CHAIRMAN: That is a cardinal rule of all that?

MR. O'DONNELL: Yes, if a railway cannot come before the Board and prove that it is compensatory then it cannot make it.

THE CHAIRMAN: What section are you referring to?

MR. O'DONNELL: Clause 13 (a) of section 35.

MR. EVANS: I hope that the Commission won't mind me pursuing this a little further, but I feel that I have to. In the case of the Lion Oils, that is referred to on page 37 of the brief.

THE CHAIRMAN: I thought you were talking about some kind of oil.

MR. EVANS: Q. They operate in Calgary, do they not?

A. Yes, sir.

Q. Is there also a British American refinery there?

A. Yes.

Q. Is it not true that the British American stayed out of the agreed charge in Calgary?

A. Yes.

Q. Is it not a fact that these oil companies stayed out or came in depending upon the extent to which they wanted to truck their oil themselves?

A. Yes.

Q. And going farther down the page, it is your evidence on page 10746 where you said this - - see if I am correct on this? You suggested there in your evidence that you looked

upon the agreed charge as a return to the situation that existed prior to 1903 when the Board was appointed. Is that a fair summary of what you said yesterday?

A. That is the tendency, yes, sir.

Q. Was not the principal difficulty giving rise to the appointment of the Board, or at least one of the material difficulties prior to 1903 the question of discrimination and rebates?

A. Yes, sir.

Q. Now, then, in your view as a student of transportation who do you think suffers most under a condition of discrimination where rebates flourish?

A. I would say the small shipper suffers.

Q. What was done was that when the Board was appointed there was unjust discrimination or discrimination, and in that way the shipper benefitted?

A. Yes.

Q. At the top of the page of your brief against agreed charges you speak of the difficult requirement of showing that the small shipper has been unjustly discriminated against?

A. Yes.

Q. Is that difficulty exactly the same under the Act now in force?

A. With agreed charges you are dealing with shippers that are ---

Q. Would you please answer the question?

A. The answer is no.

Q. You say that the difficulty of improving substantially similar circumstances and conditions is not the same under the Railway Act as it is under agreed charges?

A. Yes, I say that.

Q. Is that the advice you got from your Counsel or is that your opinion?

A. I am afraid that is my opinion.

MR. FRAWLEY: That, accidentally, happens to be my opinion also.

MR. EVANS: Q. What, in fact, you say about this statement in your evidence is that the small shipper --

THE CHAIRMAN: While you are on that point under the Railway Act, if a party complains about a certain rate as being unjustly discriminatory, what can the Board do to the rate?

MR. EVANS: It may disallow the rate complaint or it may fix a rate or it may leave the rate as it is.

THE CHAIRMAN: It may substitute another rate?

MR. EVANS: Yes, under Section 325 of the Act.

THE CHAIRMAN: I had in mind if the Board finds a certain rate to be unjustly discriminatory it disallows it? I think under certain circumstances the Board has the right to disallow a rate but not to substitute a new one.

MR. EVANS: That is in Section 325 of the Act:

"The Board may disallow any tariff or any portion thereof which it considers to be unjust or unreasonable, or contrary to any of the provisions of this Act,. . and may require the company, within a prescribed time, to substitute a tariff satisfactory to the Board in lieu thereof, or may prescribe other tolls in lieu of the tolls so disallowed."

I do not want to mislead the Commission but in practice the usual order is that the discrimination be removed. That usually permits the railway to have an option, the option being to raise the lower rate or to lower the higher rate. As long as the discrimination is removed and the rates are reasonable in themselves, the Board does not interfere.

THE CHAIRMAN: What goes on in the meantime; is the rate that is complained of to prevail until the Board brings in a

new one?

MR. EVANS: The rate remains while the Board is hearing you.

THE CHAIRMAN: You say the Board may lower one rate or increase another. It is for the railway to do that, and do they do that immediatel ?

MR. EVANS: Yes, there are two or three ways it is done. The first thing that happens that when the complaint is received in many cases the rate complained of is suspended and can no longer operate while it is being heard. If there is not a very strong case, sometimes the Board does not suspend the rate. If it is suspended it does not come into operation but after the end of the time for hearing there has been no prior suspension, then the rate cannot operate until the Board's order becomes effective. It can be done on a day's notice or two days' notice . Then in their order they suspend that rate and it becomes operative at the time of the order.

THE CHAIRMAN: Are there any conditions anywhere under which the Board may disallow a rate where the normal rate comes into operation?

MR. FRAWLEY: Mr. Matheson was telling us something about that in the Maritime Freight Rate Act.

THE CHAIRMAN: Yes, that reminds me. It is something special.

MR. EVANS:Q.Now then, just so that we get back to the point we were discussing, in view of our discussion you are now and still adhering to the position that the small shipper is as badly off with the agreed charge provisions as they stand as he was prior to regulation in 1903 when the Board was appointed?

A. No, I am not saying he is as badly off?

Q. I just want to get what you do . What do you say?

A. The agreed charge sometimes is a step backwards towards the situation you had prior to 1903 as far as the small shipper is concerned.

Q. You do not mean to convey that this is more than a retrograde step and it is in a sense a return in a broad way to the position of the small shipper prior to 1903?

A. Oh, no.

Q. This is what you said in your evidence at page 1046: "Then we would liken the agreed charge to the return to the condition that prevailed prior to 1903 with regard to the small shipper. In our opinion, that in itself is a consideration which should bear some weight in considering the propriety of these charges"?

A. I do not think I could have said that. What I meant was that it is a step backwards towards the 1903 situation.

Q. You could have made the correct impression by merely saying that it was a step backwards. You are, perhaps, inclined to overstate, and I am just suggesting that you might want to qualify that?

A. No, I wouldn't.

MR. FRAWLEY: It depends upon what he said the day before yesterday, Mr. Evans.

MR. EVANS: Q. We come to the Stop-off Privileges on page 38. Am I right in this that the Stop-off that you are talking about is the Stop-off for loading?

A. Or a stop-off for processing.

Q. That is transit not a stop-off.

THE CHAIRMAN: Q. I thought you told us the other day it was for loading. You do not mean a stop-off privilege such as making wheat into flour?

A. Yes.

Q. That is transit. Did you include all of that i .

in the heading "Stop-off Privileges"?

A. Yes, sir.

Q. I thought you said a stop-off privilege should be one that a party could bring before the Board on application to have it granted?

A. Yes, sir.

MR. EVANS: Q. Would you include a stop-off for storage?

A. Yes.

Q. All forms of stop-off whether transit or processing, a stop-off for loading and unloading and a stop-off for storage - these would be matters you included in this paragraph?

A. Yes.

Q. As I understood your evidence yesterday, you put this qualification on it. You thought that in the vast majority of cases these things would be negotiated with the railways by the shipper and the Board would give automatic approval to them?

A. Yes.

Q. Apart from unjust discrimination, if a shipper simply says, "I want to get the privilege of stop-off to store some of my goods until I decide which market I am going to send them to", would you give the Board the authority, over the objection of the railways, to order that stop-off privilege to be put in?

A. If the Board thought it was desirable, yes, we would give them that power.

Q. What test of desirability do you put on that?

A. If the Board, after hearing the evidence of both parties, thought that it was desirable that would be sufficient.

Q. Do you and I understand the same thing that stop-off means this: That the shipment inbound to the stop-off point

for storage moves in at the local rate and goes into storage, and then after a certain time the goods are shipped out at a through rate and the difference paid by the shipper is the difference between the local rate and the through rate?

A. Yes, I understand that.

Q. Would your stop-off privilege give the shipper a choice of destination from that stop-off point?

A. I haven't considered that aspect of it. It is simply a matter of principle that we think the Board of Transport Commissioners should take an active part in things such as this in-transit privilege.

THE CHAIRMAN: Q. In that case then, you mean that the railway should not be allowed to give stop-off privileges to any shipper unless they both come to the Board and get the Board's blessing on it?

A. I think if they would both agree the approval of the Board would be automatic.

Q. Still they would have to go to the Board? The point is that you would say if the railway and the shipper are quite in agreement about a stop-off they, nevertheless, cannot make it effective without going to the Board?

A. That is right.

MR. EVANS: Q. What would you do to notify all other shippers in a like situation who might have objection to it on the ground that it might discriminate against them; you would have to do that?

A. Yes, if the stop-off privilege is granted by the railway to a particular shipper you would have the same situation.

Q. Except the stop-off privilege comes into it and does not have to be held up until you have the full dress hearing?

A. No, as far as notifying other shippers, it is the same situation as to-day.

Q. The privilege of getting a stop-off privilege would be a lot less if it meant that you had to have a hearing with the delay involved?

A. If there was a necessity of a hearing in this system which we suggest, I would imagine and indicate there is another reason to believe that there would not be a hearing under the circumstances, and if there was a hearing I would be surprised if the Board did not allow the privilege.

COMMISSIONER INNIS: To what extent is a stop-off privilege used?

MR. EVANS: We heard of a stop-off for loading in the interior lumber industry.

COMMISSIONER INNIS: Is it something that is used in a very large way by the railway?

MR. EVANS: There are certain points where there are warehouses provided. We have warehouses at Newport.

THE CHAIRMAN: Where is that?

MR. EVANS: That is in Vermont, just across the line.

THE CHAIRMAN: Does this stop-off privilege at Newport apply to any shipper?

MR. EVANS: To anyone that ships on the stop-off rate. If he ships by the same carrier he gets the benefit of the through rate. He pays the warehousing charge, of course.

THE CHAIRMAN: Q. Does any charge of discrimination arise here?

A. No discrimination. In connection with in-transit privileges ---

Q. What is the complaint here?

A. In Alberta the people at Lloydminster produce, among other things, a binder that they use in bricketting. If they want to move any coal and move this binder into a plant to make this stuff, and they want an in-transit privilege for the coal or binder, they go to the railway and negotiate with them.

Q. Did they get it?

A. They haven't got it.

Q. Have they asked for that?

A.. I would not like to say. I have had a discussion on that subject, but, as a matter of point, we think those people should have the privilege, if they have been to the railway and have been refused there, that they should be able to go to the Board.

Q. If I understand you properly neither the railways nor the shippers can do anything until they both go to the Board?

A. If they cannot get together.

Q. Suppose the railways and these particular shippers agree, you still would make them go to the Board?

A. They would file that with the Board and have the privilege granted.

MR. FRAWLEY: I do not think one can say that they would have to go to the Board; they would simply file it with the Board for automatic approval. I would not associate myself with my friend as to any formal hearing.

THE CHAIRMAN: Q. If the two parties agree to it why cannot they go on and do it unless someone is being hurt by it? So far he has said the present practice should be changed and they should have to go to the Board, and in the meantime the rate was not to be effective until the Board had approved of it. Do you say that the Board must approve of it? Do you not say that this Board can say, "We have discretion here and we may exercise it". Is this the condition you want to create?

MR. FRAWLEY: No, sir.

THE CHAIRMAN: Do you go so far as to say where the railway and the shipper agree they should go to the Board?

MR. FRAWLEY: I only want to say that I think when the witness was last answering your lordship that he was going to

explain the degree of informality that would accompany a situation where there had been already agreement. There would be practically nothing but filing an agreement and having it rubber-stamped by the Board.

THE CHAIRMAN: It is one thing to say that where the railway and a shipper enter into a stop-off privilege they shall communicate this agreement to the Board, and another thing to say that they should have to appear before the Board.

MR. FRAWLEY: Yes, my lord.

THE CHAIRMAN: That is a different thing from saying that they must go to the Board and have it approved. Mr. Harries has been telling us all along that he wants that prior approval of the Board. Cannot you clear it up?

MR. FRAWLEY: Q. How much farther beyond what is usual now would you consider you had to go?

A. I said "Approved by the Board" because I thought, as Mr. Frawley said, they would just rubber-stamp it and put it in. When the railway and the shipper agreed to a stop-off privilege I do not think there is any problem as far as the Board is concerned.

THE CHAIRMAN: Q. Would you still make them wait until they got word back from the Board?

A. No.

MR. COVERT: May I add something, my lord? I wonder if they mean to file for approval subject to objections?

THE CHAIRMAN: You mean objection by a third party? Is that the situation you want to create ?

MR. FRAWLEY: Yes, my lord.

MR. O'DONNELL: That is the way it is done now.

MR. COVERT: Q. Isn't that the way it is done to-day?

A. The situation we were interested in was that when the railways and the shipper can't agree that the shipper could come to the Board and say, "This is my case"

and the railways present their case and the Board decides. We say that the Board should assume a more active role in that.

THE CHAIRMAN: Q. You tell us that you want this situation,that if the two parties did agree,they must, nevertheless, come to the Board for its approval?

A. I do not mean that, sir, in that sense.

Q. You mean that they would file it and it is subject to approval or it is subject to objection?

A. It is always subject to objection and I do not think it needs to be subject to approval if they both agree.

MR. EVANS: Q. In connection with this special branch of the case where you think on a complaint that the Board should be empowered to order the railways to put in this privilege for a stop-off, you want them to have that power regardless of any question of discrimination?

A. Not regardless of the question of discrimination.

Q. How far, then?

A. If this privilege is discriminatory as between shippers that would be one of the things that would have to be removed.

Q. I want that very clear. You want this Board to have this power to order a stop-off privilege to be put in whdther or not discrimination is alleged and proved?

A. Yes.

Q. Now then, so that it would only be a question of the Board's discretion whether on a complaint that a stop-off privilege was allowed, and the extent to which it would be allowed/is a pure matter of discretion with the Board?

A. Yes.

Q. Also a pure matter of discretion of the Board

as to what the charge should be for the stop-off privilege?

A. Yes.

Q. Do you think the Board should be authorized to allow a stop-off privilege at any point the Board may think it proper, having regard to the needs of the shipper.

A. And having regard to the needs of the railway, certainly.

Q. How about warehousing; who provides the warehousing at the stop-off for storage?

A. I imagine in different circumstances the shipper or the warehouseman of the railway.

Q. If there was no warehouse at the point, would the Board have the authority to order a stop-off privilege and make the railway provide the warehouse?

A. I think the Board would merely listen to the argument of the shipper and of the railways and on the basis of the evidence they would reach a decision as to whether or not the privilege should be granted, and if it should, at what points.

(Page 10989 follows)

Q. Now all I am asking you, is whether you want the Board to have the power. I want to see how far its power is to go. I am not trying to trip you up at all. Do you want them, or do you not want them, to be able to say to the railway "Now you shall put in a stop-off privilege at point A and if necessary construct a warehouse for the storage of these goods"?

A. As I understand it, the Board has power to direct the facilities that will be made available for the stop-off privilege, and if warehouses come under the facilities they have that power, so I would say, yes.

Q. Now, would that depend on the volume of traffic likely to stop off aa that point?

A. It would certainly be one consideration.

Q. So that there would have to be some limitation wouldn't there?

A. There would be a number of considerations. That would be one of them. Frequency of the movement and how long it was likely to last - all those things would be considered.

Q. Dr. Innis asked me whether the stop-off was extensively used, and my note from the Traffic People is that it is extensively used, and a very large number particularly in the west, as Mr. Shepard has been showing me a moment ago. Now, on page 42 - -

THE CHAIRMAN: Then, as I take it, all we have left is this point, that in your opinion the stop-off privilege, should not be left to the entire discretion of the railways?

MR. FRAWLEY: That is precisely our position; You could not put it any better than that.

MR. EVANS: Except that it is not now at the entire

discretion of the railway.

THE CHAIRMAN: Well, according to a citation, the case is given where we are told that the privilege is a preogative of the railway. Now, if that is an accurate statement of the matter, what is objected to?

MR. EVANS: I submit it is not an accurate statement. It is the preogative of the railway as long as it does not discriminate.

THE CHAIRMAN: Oh, I know you can't discriminate.

MR. EVANS: Well, that covers so much of this.

THE CHAIRMAN: Discrimination, I think would mean, that you have given a stop-over privilege and that constitutes a discrimination against somebody else?

MR. EVANS: That might be.

THE CHAIRMAN: That is not the point. The point we are at here, is whether some shipper wants a stop-over privilege, and you say "No, we are not going to grant it". There is no discrimination arising in that matter. The Board has said so far "That is the railway's business. They say no, and that is the end of it". Now, Mr. Frawley wants that to be changed so that the shipper who wants the privilege which you refuse to grant him, may take it to the Board, and have the Board make an order saying that you must grant it, and provide, if necessary, certain facilities.

MR. FRAWLEY: Exactly. There should be recourse beyond the refusal of the railway.

THE CHAIRMAN: We have apparently got rid of the first idea, anyhow.

MR. EVANS: On page 42, you have a heading there, at the top of the page "The relation between rates on raw materials, and the rates on finished products" and

then you have a decision in the Kemp Manufacturing Case, from which you make a rather extensive quotation. And the comment on that following the quotation is:

> "This judgment starts from the assumption that it is 'natural' to move raw materials rather than finished products".

Now, do you think that is a fair inference to be taken from that quotation?

THE WITNESS: Yes.

Q. Now then, is the inference to be taken from this statement (and I am quoting from the beginning of the quotation you have there):

> "It is a natural trade condition for manufacturers, conditions of capital and demand being satisfactory, to carry forward the raw material to the point most economically adjacent to the centres of demand and then manufacture it".

Is that where you got that inference?

A. Yes sir.

THE CHAIRMAN: Where is that?

MR. EVANS: That is the first sentence of the quotation.

THE CHAIRMAN: In the quotation?

MR. EVANS: Yes. Now then, let me ask you this: Do you disagree with the soundness of the first sentence that I have read to you from the quotation?

THE CHAIRMAN: That is "It is a natural trade condition --"?

MR. EVANS: "It is a natural trade condition for manufacturers, conditions of capital and demand being satisfactory, to carry forward the raw material to the point most economically adjacent to the centres of demand and then

manufacture it."

THE WITNESS: Yes.

Q. You disagree with that?

A. Yes.

THE CHAIRMAN: That was said in 1909.

MR. EVANS: Yes, this is from the Judgment.

THE CHAIRMAN: But in 1909. I suppose the question is, does the witness think that is the case today?

MR. EVANS: I was asking him, as a matter of principle, if he disagreed.

THE WITNESS: As a matter of principle, I do disagree.

THE CHAIRMAN: You disagree?

A. Yes sir.

MR. EVANS: Do you disagree with the question, as to whether raw materials shall be moved as compared with finished products depends on the economics of the over-all production costs involved, and the transportation involved?

A. Do I disagree with that statement?

Q. Yes, do you agree or disagree?

A. I say that whether the raw material or the finished product moves, depends primarily upon the relative cost of transfer of thos two things.

Q. And the weight-loss in the material?

A. Well, that is a relative cost of transfer. Input-output is the same.

Q. Do you not agree that it is natural, conditions of capital and demand being satisfactory, to carry forward the raw material to the point most economically suited for its production into the finished product ? Would you go that far with me?

THE CHAIRMAN: "to the centres of demand".

MR. EVANS: I was putting a little variation of that.

THE CHAIRMAN: "...to carry it forward to the point most economically suited for its production into the finished product". I want to make sure I understand you. You would change the word "demand" for "production". Is that what you are doing?

MR. EVANS: I was leaving out the words "adjacent to the centres of demand" and trying to find out whether the witness felt that those were the important words in there.

THE CHAIRMAN: Well, the "demand", I suppose, is the market?

MR. EVANS: Yes.

THE CHAIRMAN: Now, what this Judgment says, is that there is a tendency to bring the raw material as near as possible to the market, and then manufacture it?

MR. EVANS: Yes.

THE CHAIRMAN: What are you substituting for those words?

MR. EVANS: I am testing him. He says he disagrees with that statement, and I am testing him to see how far or what the extent of the disagreement is.

THE CHAIRMAN: Well, how are you testing him?

MR. EVANS: By putting alternative ways.

THE CHAIRMAN: Well tell me, what is the alternative?

MR. EVANS: I hope I can put it exactly the same way. I asked the witness whether he would go so far as to disagree with the proposition that it is a natural trade condition for manufacturers, conditions of capital and demand being satisfactory, to carry forward the raw

material to the point most economically suited for its manufacture.

THE CHAIRMAN: The question is, where is that point?

MR. EVANS: That is a hypothetical proposition.

THE CHAIRMAN: It comes to whatever point is the most economical, I suppose ?

MR. EVANS: To me, it is fundamental.

THE CHAIRMAN: That point may be back to where the raw material is, or it may be away at the other end where the market is, or some place in between. Is that right?

MR. EVANS: Yes, I agree, and I am trying to test the witness, as to how far he goes with this proposition. The difference that has happened here, sir, and I don't want to prolong this - -

THE CHAIRMAN: I think it is important, you see. The result of what you have read so far, is that in the opinion of the Board in 1909 the most advantageous point of manufacture was at the market, and not at the origin of the raw material?

MR. EVANS: Yes.

THE CHAIRMAN: Well, you see, the "most economical point" - does not make any difference? It only means that as things were then, the most economical point was held to be near the market. Does that change things?

MR. EVANS: If it had said to the point adjacent to the centres of demand, then there might have been some quarrel with that, but it said, "To the point most economically adjacent to".

THE CHAIRMAN: But the word "adjacent" is there.

MR. EVANS: Quite so. All that means is that a big market has a pull to the manufacturing plants to process

their products adjacent to that market, as near as can be done within the realm of economical production. You see, what has been done in the Brief of Alberta, is that that is distorted, in my submission, into an assertion that that amounts to an assumption that it is natural to move raw materials rather than finished products. I think that is an absurd conclusion from that.

THE CHAIRMAN: Surely we can be told what has gone on since 1909. What is the case today?

MR. EVANS: I don't know sir.

THE CHAIRMAN: We ought to be able to know where manufacturing goes on. Does it go on where the raw materials are? Does it go on where the market is, or does it go on somewhere else, where manufacturing power happens to be? What is the actual situation, not what it ought to be theoretically, but what is the case?

MR. EVANS: Well sir, there are so many complexities in the relation of the production of finished products to the raw materials that it would be impossible for me to tell you what the factual situation in Canada is. I think an illustration might be put this way. My son recently bought a bit of leather goods, a small item with a zipper, to carry papers - sometimes called a small Brief-case. He bought that in Montreal. The manufacturers of that thing were in Vancouver. Where the manufacturer got the hide from, I don't know - possibly Alberta. Now, it would be impossible to generalize or even to be specific about industry as a whole, and to say what the condition is today. You can only deal in general principles.

THE CHAIRMAN: But can you show us the tendency Mr. Evans? Is there a tendency today for manufacturers

to get back to where the raw materials are?

A. Well, the answer to that, sir, must be this. The tendency would be almost irresistible in the case of a raw material being processed which in the processing loses a great proportion of its weight. That is a very important element. Now then, there are other elements - the position of the market. There are a lot of different markets, and a lot of competitors competing in the local market and in the common market. There are tendencies and there is certainly a tendency, all other things being equal, assuming wages are equal and capital equally available, for the position of a producer to be affected between the freight rates on the finished product and the raw material.

THE CHAIRMAN: Which tendency does the present rate structure encourage?

A. I think it encourages substantial diversification.

THE CHAIRMAN: I believe Mr. Frawley thinks it encourages the shipping out of raw materials to plants far away?

MR. FRAWLEY: That is certainly what we think.

THE CHAIRMAN: Now, if that is a condition you think is not entirely justified, I suppose the point is what ought to be done about it. Ought freight rates to be so adjusted as to encourage manufacture at or near the point of the production of the raw material?

MR. FRAWLEY: Or at least to not discourage it.

THE CHAIRMAN: Yes, I forgot you remain neutral between a distant manufacturer and the local manufacturer. Is that right?

MR. FRAWLEY: That is right sir.

MR. EVANS: Of course, our position as I put it yesterday to Dr. Stewart and the Commission, was that if we in fixing the relationship in rates directly to the in-put put-put ratio in materials and overlooked the cost of service and value of service and the reasonableness it is now the opinion of the Canadian Pacific, and I assume of my friends in the Canadian National that the Board now considers reasonableness, having regard to the accepted principles of rate making which involve value of service,and cost of service from the standpoint of discrimination, and Alberta now wants them to consider it solely in relation to the in-put out-put ratio of the raw material and the finished product.

MR. FRAWLEY: Oh no.

MR. EVANS: Now my friend can argue this. He put in a study yeaterday, an insert at page 49 of his brief and the sole purpose of that insert was to show the critical relation and while he did not want it included, there was a limit on critical relations which he said should be the basis of the rate making maahinery. Now then, I was trying to test Mr. Harries on the comment he is making on the cases and I felt that some of the commemt he makes on it is distorting in meaning, not in an invidious sense, but a misinterpretation of the judgment he refers to, and he basis his argument upon this misinterpretation and that, therefor, if I can show that he has misinterpreted it, much of his argument falls to the ground and I wanted to test him in theory.

THE CHAIRMAN: Nobody is stopping you, but before you proceed what is the effect of this word "critical"?

MR. EVANS: Well, I am not an economist, my Lord, but I am sure Dr. Angus or Dr. Innis could -

THE CHAIRMAN: Does it do anything? You said it was necessary to derive data showing a rate relationship?

MR. EVANS: Well, I think the word "critical" is that once you pass over the line you disturb the relation.

THE CHAIRMAN: Where a decision occurs?

MR. EVANS: The critical point is probably the neutral point.

THE CHAIRMAN: I suppose the apex of the critical point would be the neutral point?

MR. EVANS: There will be some dispute as to where the apex of this point is between Mr. Frawley and Mr. MacPherson.

MR. FRAWLEY: Not a real one.

MR. EVANS: Now then, I had got from you a statement that you disagreed with the first sentence of that quotation. Now, do you or do you not agree with reading it this way: "It is a natural trade condition for manufacturers, conditions of capital and demand being satisfactory, to carry forward the raw material to the point most economically fitted for the production of that material"?

THE WITNESS: I don't think that means anything. It does not mean anything to me, Mr. Evans. What that first sentence means in that quotation is, in my submission, made quite clear when you read the next sentence, because it says: "Normally this means that the long haul of the raw material is at a low rate, while a higher rate is on the finished material from point of manufacture to point of destination". It seems

to me that that is the meaning.

Q: Now, Mr. Harries, I am being quite patient. You are arguing with me and you gave me an answer to the first question I asked you. You said that the inference you argue at the beginning of your comment was derived from that first sentence. You have told me that you disagree with that first sentence and I am trying to test you to find out what is wrong with that first sentence. Now, I will take you to the second sentence when we come to it.

MR. FRAWLEY: You certainly want to be fair, as you always are. The comment is "This Judgment starts with the assumption .." Can't we have two sentences for a start?

MR. EVANS: Then I gather you don't want to answer the question I put to you?

MR. FRAWLEY: You certainly cannot gather that from the conduct of this witness.

MR. EVANS: Well, will you answer the question?

A: I do not understand the question at all, Mr. Evans.

Q: Then I will put another question. Now then, you say "the Judgment starts from the assumption that it is 'natural' to move raw materials rather than finished products". Now then, do you get that inference from "Normally this means that the long haul of the raw material is at a low rate, while a higher rate is on the finished material from point of manufacture to point of destination"? Is that where you get that inference?

A: I get it from the first two sentences.

Q: And only from the two sentences?

A: No, from the whole quotation. That is what I take them to mean in the Judgment. I cannot say I got

it from this particular word or that particular word.

Q: Now, you see, what you have done here is you have said "This Judgment starts from the assumption that it is natural to move raw materials in preference to finished products". Isn't that the plain inference?

A: "Rather than finished products" - yes.

Q: And does not the Judgment point to the fact that the test is the point must be economically adjacent to the market? Now where can you get any broad statement from that quotation from which to derive an assumption that it is natural to move raw materials rather than finished products? Now you told me that.

A: It says "adjacent to the centres of demand" and if they mean adjacent to the centres of the raw material I would suspect they would say as much.

Q: They said "Most economically adjacent". Now, does that make it any different in your thinking?

A: No.

Q: Well, I am glad to know that.

COMMISSIONER ANGUS: Mr. Harries, do the freight rates themselves play a big part in determining which is the most economical point?

A: That is my point in this, that they say, in my submission that it is more economical to process near the point of consumption and we simply say "Given a particular freight rate structure -" of course, it is economical, but there is nothing inherently right about that, and we say, in fact, there may be something inherently wrong.

THE CHAIRMAN: That is why you say the rate should be removed?

A: Yes sir.

Q: When the manufacturer has to make up his mind

where he will operate, he has not got to regard freight rates at all?

MR. EVANS: Now, may I ask you another question? Do you disagree with the principle that normally the raw material should move (mind you, I say "should") at a lower rate than the finished products?

A: No, not at all. I am in complete agreement with that.

Q: You do not agree?

A: I am in complete agreement with it, yes.

Q: And do you agree that the relationship between those rates should give some weight to value of service and cost of service?

A: Some weight, certainly.

Q: Now then, in order to get you clear on that, do you agree that if the value of service or cost of service or both require a higher difference between the finished product and the raw material than the critical relationship, that that would be sufficient reason for going beyond the critical relationship?

A: No, I think that the critical relationship is the primary point. It would depend, of course, on the magnitude of it.

Q: Now then, if the critical relationship meant making rates that were not compensatory, you would go that far?

A: The critical relationship would have nothing to do with making both rates non-compensatory.

Q: I did not say that.

A: You said "rates", sir.

Q: You said you would disregard, as a matter of choice, cost of service and value of service in favour of maintaining the critical relationship and I asked you

where that involved making some rates which were not compensatory, if you still would adhere to that principle?

A: Yes sir.

Q: You would?

A: Yes sir.

Q: Now, that would mean, would it not, either one of two things, that if you had this generally applied (and it would have to be generally applied because other provinces are involved) if you had it generally applied the sum-total of those rates that were not compensatory might very well be a serious matter? I am not saying they would be. I am asking you to say that they may be or may prove to be?

A: No, I don't think so.

Q: Now, if it did prove to be, how would you take care of the losses?

A: In those particular rates, the ones that are non-compensatory?

Q: Yes.

A: I would think they would be made up in the general revenues of the railways.

Q: Now, let us suppose that those losses occurred on the low grade traffic of the two, the raw material traffic, and that the high grade traffic, the finished product traffic, was subjected to greater competition and the result of that would be a lowering of the rates on the high grade traffic, the finished product, to meet the competition, then to maintain your critical relationship you would again have to reduce the rates on your raw commodities. What then?

A: If you had a situation where the finished commodity was subjected to competition and it lowered the rate, that would have the effect of encouraging, to a greater extent, producer location and consequently you

would not have to do anything about it. It would move away from the critical relationship in favour of producer location which is what we say you should encourage.

Q. Now, isn't that exactly where you get when attempting to put rates on these so-called critical relations because changing conditions may prove ultimately that you are getting a little advantage from them without providing for the ordinary revenues of the railways and without taking into account the ordinary principle upon which rates are made? You stand always to win, in other words. You can never lose by that.

A. You stand always to get a fair deal.

(Page 11010 - follows)

Q. If changes take place you stand to get a fair deal?

A. They can always change. If you make it to-day it doesn't have to continue for 50 years. That is shown in United States in connection with those meat-livestock rates. They have not stayed constant for years in every particular description; they will alter. They have changed and they have put them back into relationship.

Q. What alters the relationships?

A. Competitive conditions, changes of market structure, changes in the structure of the producing areas, and any number of ordinary changes.

Q. We are talking about something then from output-input?

A. We are talking about changing of a competitive situation which may result in changes of the critical relations.

Q. Now then, I understood you to say that these critical relationships were a matter of input-output and competitive conditions. Am I right in that?

A. Yes, that is right.

Q. Are you going to have this relationship of input-output and then are you going to have all these competitive conditions to change this critical relationship?

A. Critical relationship, as I understand it, is the result of applying rates to input-output. This input-output as it is, it is the relation to rates.

Q. With a given rate you keep these rates in relation to your critical relationship, and I understood you to say that you would have to change this critical relationship because of the competitive condition in the

industry?

A. Yes.

Q. That would involve the entire cost of production coming into this picture of rates?

A. No, it does not. What I mean in connection with changes in a competitive condition was that you originally had your packing industry in the United States centered about New York and then it moved to Chicago. That was a change in the competitive situation, and then it moved farther west into interior points, and when these changes took place you had a different situation in connection with critical rate relations. That is what I mean.

Q. I see some difficulty in that. I understood that what you want is neutrality. You want rates to be so arranged that the position which Alberta is now in will produce some incentive to produce a secondary industry in Alberta?

A. Yes, we think that will follow from this.

Q. What you are saying to me now is that when that had been accomplished and these relations established and secondary industry has become a thriving matter in Alberta, that new relationships will have to be built up depending upon the competitive situation in Alberta with some growth in some other part of Canada?

A. No, I don't think that follows.

THE CHAIRMAN: Before you leave that topic the whole tendency of your case is to have something done to induce manufacturing in Alberta of the raw materials you have, and then to have that shipped out in the manufactured form to markets elsewhere?

MR. FRAWLEY: Yes, sir.

THE CHAIRMAN: Would you go so far as to say that

you would expect to ship out manufactured goods even if the rate turned out to be non compensatory.

MR. FRAWLEY: I do not understand that that would follow from anything that Mr.Harries said.

THE CHAIRMAN: Supposing it did follow. In order to get your meat, for example, out to outside markets you required a rate which would be non compenstory , would you still go on and say because of that, you needed that rate?

MR. FRAWLEY: I understood the witness to say --- -

THE COMMISSIONER: I want to know what your case is.

MR. FRAWLEY: Let me ask the witness if that involves that result?

A. I think in principle we would have to say "yes" to that.

THE COMMISSIONER: Q. You want to be able to ship your finished product even if it is carried at a loss?

A. Yes.

Q. Who would make up the loss; the other shippers throughout the Dominion?

A. Yes.

COMMISSIONER INNIS: Q. Would it not be fair to say, Mr. Harries, that you regard this decision which goes back to 1909 as representing a general position of the Board favouring the Eastern markets as against the West?

A. Yes, I think it would be fair to say that this represents the attitude of the Board in the 21% Judgment. I am not sure whether this case is quoted, but there were a number of cases quoted which go back almost this same distance as being the opinion of the Board at that time.

Q. Therefore, the Board was an economic planning institution?

A. Yes, I think in the powers it has that it has

some economic planning.

Q. Is it your view that you now find it necessary to reverse that position and you feel the stand of the Board is detrimental to your position?

A. Yes.

Q. And that is why you place this whole emphasis on the raw material and finished product rate?

A. Yes, we feel that if there is some direction or something that would get the Board to consider this problem, then they will go on looking at the rate and seeing the rate per se. There are some historic reasons for that. When the livestock industry started in Canada there was no population in the West and naturally they wanted to get that livestock out of there and so the rate structure grew up with that idea in mind but to-day we have an entirely different picture because of the technological development and because of the development of population in Alberta. We think that every person should have the right that we are asking for. It is not a special plea.

MR. EVANS: Q. Perhaps, I could put this to you as a final question on this branch of the subject. In fact, you want a change of regulation so far as necessary to eliminate the free play of economic force in fixing freight rates?

A. I don't believe there is any such thing as free play of economic force determining freight rates.

Q. There is no free play in the sense that the purpose of a railway is in the freight market to some extent with regulations to bargain with shippers and to meet conditions; you do not think there is any such thing to-day?

A. Yes, I think there is such a thing.

Q. So that, so far as this particular principle is concerned about relationship of rates, you want these things done in a way which might be defined as a critical relation between the products of the raw material and the raw material itself?

A. No, sir, I don't think that is our position at all.

Q. I thought we had gone all through that. I think you said when you came to choose whether the ordinary rules of rate-making and the value of service were not reflected with the critical relation that you would give first place to your critical relation between your raw material and finished product?

A. I do not wish to convey the impression that we were advocating all three principles. We say that this is an important one, this critical relation, but it is not the only one.

Q. I am not trying to get you to say it is the only one. I asked you when the two came into conflict, you submitted that you would give precedent to the critical relation. Surely we have gone through that once; we do not need to go to it again?

A. When you say that if everything else is gone you would still follow the principle. Under particular circumstances it is all relative and we think this is an important principle, but it does not do away with all the other things you line up.

Q. I want to get at what you want; I want to ask you now, and I am not going to pursue this too far, but I want to know what I thought you said before. In the event that the maintenance of the critical relation would produce rates that are compensatory or rates that do not reflect in accordance with the established practice of

the value of service then you would adhere to these factors if you had to choose the application of the factors to the application of your critical relations?

A. It depends upon the relative importance of them.

Q. What do you say as to the relative importance?

A. I would not know until I saw the particular case.

Q. Put it this way; may I get you as believing that if the matter of compensatory rates was a small matter, that is to say, the rates were only slightly less than compensatory, would you apply a different principle then if they were substantially less than compensatory?

A. I may say that these things are of importance but we think that in this particular regard that the most important principle is the one that we call the neutral rate principle and whether it would overweigh all other factors in any particular circumstances is something I cannot tell.

Q. Does not that somewhat depart from what you told us before?

A. No, I did not intend that it should.

(Page 11020 follows)

AFTERNOON SESSION

... The Commission resumed at 2:45 p.m.

MR. HU HARRIES, RECALLED

CROSS-EXAMINATION BY MR. EVANS (CON'T.)

Q: At the adjournment, Mr. Harries, I got from you the position that you thought that in considering these relationships between the rates on raw materials and on finished products, that the Board would have to take into account such things as value of service and cost of service?

A: That is right, sir.

Q: Then, doesn't this result from that, that the Board in effect by taking into account the cost of service and value of service, in effect considers the reasonableness of rate per se?

A: Yes.

Q: So that if the Board is to take into account the value of service and cost of service,and because of that the reasonableness of rates per se, would you also agree that the Board would have to take into account the disturbance of existing industry?

A: I think that if it was obvious that there was a very major disturbance, that they might have to take it into account, but any adjustment is going to affect industry in some respect.

Q: I am not attempting to narrow it too finely because I know that you and I are dealing with generalities, but you would agree, from what I understand, that one of the considerations that would influence the ultimate determination of questions which would be submitted to the Board in connection with these relationships, would be the effect which those changes which are now proposed to give effect to the change in relationship, would have on existing industry?

A: If there was going to be a very major effect, yes.

Q: Well now, "major" in the sense of small shipper and big shipper?

A: No, major in the sense of the resources and money that is involved.

Q: Now then, on Page 43 there is a quotation from a decision of the Board in the International Paper Company v Grand Trunk Railway case and the comment on that says this - and that will be found, my Lord, at the paragraph near the bottom of the page immediately following the second quotation on Page 43:

> "This Judgment confirms the position taken in the Michigan Sugar Case but records the recognktion of the Board that there are valid objections to the principle".

Now, my suggestion to you about that is this: The Board, in the decision which you quote there, used these words in the quotation: "There are, of course, objections to the principle". Now then, I am wondering where you got the word "valid". Does that appear anywhere in the quotation that you used?

A: No.

Q: So that actually in using the word "valid" as qualifying the objection recognized by the Board, you have read into the statement by the Board that there are objections to affect the finding and that those objections are valid objections?

THE CHAIRMAN: Would you strike the word "valid" out of the brief?

A: Yes, I would be quite content to leave the word"valid" out.

MR. EVANS: I just wanted to clear up the language.

Now, beginning at the bottom of this same page, 43, there are references to the decision of the Board in the case of Alberta and Saskatchewan v the two railways in 18 J.O.R.& R. Now then, that decision, from which you have excluded about one and a half pages or perhaps one and a third pages of quotation is (and I want to be fair about this) relied upon by you as indicating that the Board's attitude in connection with these matters of relation between the rates on raw material and finished products, is not in accordance with what Alberta believes should be the proper attitude. I don't think I am being unfair in that. I want to get it clear.

A: Well, this is certainly one of the cases; it is not the only one.

Q: Now then, is it your suggestion that the Board did not deal in that case with the questions of reasonableness, unjust discrimination, and dislocation of existing industry?

A: No, they dealt with reasonableness, they dealt with unjust discrimination, and I remeber in the case that they said they would have to consider the eastern packer.

Q: Now, what I am suggesting to you, is this, that nowhere in that decision does it appear that the Board refused the relief because they felt they had no power to consider the reasonableness of the relation between those rates?

A: They did not refuse it because they had no power - that is right.

Q: Perhaps I should tell the Commission (and you can correct me if I am wrong) about this case. I think it is an extremely important case in this connection

and I would not trouble the Commission if I did not think so. The case involved a contention by a number of packing houses in the West and by the provinces that there should be established a relation between livestock and meats in the freight rates, and I have unfortunately here only -

THE CHAIRMAN: Pardon me. You say that there should be established a relation. There always is a relation.

MR. EVANS: Yes, but a relation of the kind -

THE CHAIRMAN: That Mr. Frawley wants?

MR. EVANS: Yes, that Mr. Frawley wants in this case. It is a case exactly in point and has, because of the extent of the brief extracts from the Judgment, a good deal to do with this very question as to what the Board's attitude is and what the Board considers in this case, and the decision appears in 18 J.O.R.& R. That is the citation given in the brief at the end of Page 43, and I want to take enough time, without going too much into this, to give the Commission a bird's eye view of this case, because it has a good deal to do with the nature of the difference between Mr. Harries and me on the powers of the Board and the considerations which the Board takes into account.

Now then, that case was also reported in the Canadian Freight Association Reports, and the number is 1588. That happens to be the only one I have readily available in pamphlet form, and the date is December 6th, 1928. The Judgment is by the Chief Commissioner, and extends for some twenty-two printed pages in the pamphlet copy, and just drawing the Commission's attention to some of the highlights in the Judgment of the Chief Commissioner, at Page 5, this more or less summarizes

the applicants' contention:

> "Embodied in the applications and submissions before the Board by the western packing house companies, is a contention that there should be a relation between the livestock rate from western to eastern Canadian points, as compared with the meat rate involved in such movement. The Canadian Packing Company further submitted (and this is the eastern shipper) that any reduction in the fresh meat or packing house products rate from western packing centres to eastern consuming points without corresponding reductions in the livestock rates from western points to eastern packing centres, would seriously endanger the packing industry in eastern Canada".

Now then, the next paragraph on the first page reads this way:

> "Referring more particularly to the contentions made by the western packers, Gainers Limited contended that there should be a constant relationship between the rates on livestock and packing house products and hides." - and so on.

Now then, an observation which I only mention in passing on Page 6 of this Report makes this finding:

> "It appears from the record that the value of livestock is much less than that of the packing house products."

I am only giving the highlights of this.

Now then, on Page 8, there appears a statement of these relationships and I am not going to pause to

describe them, but I just want the Commission to know what was involved here. These relationships were compared as from Winnipeg and from Moose Jaw and Edmonton and then on Page 9 of this brief this passage appears:

> "As shown above, a considerable difference is manifested between the rates suggested by the various parties, as well as in regard to the basis upon which they should be constructed. But in the disposition of this application it may now be taken for granted that the reduced rates are asked for on the basis put forward by the Swift Canadian Company, whose original application, except as to hides, remains unchanged, viz., that the rates on these commodities from points west of Winnipeg to Toronto and Montreal, and to other points in eastern Canada, taking the same rates, should be reduced so as to exhibit the same relationship to the livestock rates contemporaneously published between such points, as exists between rates on these commodities and on livestock from Winnipeg to eastern Canadian points."

Now then, that makes it, I think, reasonably clear that in that case the issues before the Board of Transport Commissioners were identical with the issue raised by Alberta on the subject of meat and livestock rates.

THE CHAIRMAN: Tell me, Mr. Evans, in that case was there any intervention on behalf of the ranchers?

MR. EVANS: I do not see any.

THE CHAIRMAN: What we sometimes here refer to as the livestock industry itself.

MR. EVANS: I do not see any because there, you see,

no one had the temerity to suggest that livestock rates were to be raised to the relationship which was to be proposed by the lowering of the meat rates and that appeared from the last reading I gave to the Commission.

MR. FRAWLEY: In that respect, therein lies the difference between the case of 1928 and the submission we are making today. We are simply asking for the establishment of the critical relationship and we are prepared to have the rates go either way. Now my friend is attempting, which is not unusual, and which is quite proper, to discuss this case in full. I should like to say that unless the Board particularly directs me, I am not prepared to enter into a discussion of the case at this time.

THE CHAIRMAN: I think we cannot have time for two arguments on the same point.

MR. EVANS: I am not arguing the case.

THE CHAIRMAN: So far you are making the point - I asked you whether the producers of livestock were heard from or had any views to express. You say there was nobody asked for a change in the rates on the raw material.

MR. EVANS: Well, no one suggested exactly what they suggest here, that the rates on livestock should be increased to make this relation.

MR. FRAWLEY: We never suggested that either, but my friend is satisfied that no one suggested what has been suggested here, mainly, to increase the rate on livestock. I think my friend knows what we are after.

THE CHAIRMAN: You say it might or might not be raised?

MR. FRAWLEY: Yes.

THE CHAIRMAN: Do I understand that in the case you are discussing now the only application was for a decrease in the rates on finished products of meat?

MR. EVANS: May I answer your question this way? The issue was whether there should be a relation, and the method by which we brought about that relation differed from the Alberta situation today in that there was an expressed suggestion that the rates on meats be reduced to produce the relation, whereas Mr. Frawley's clients have taken the position that it is immaterial to them whether the rates were reduced on meats or whether the rates on livestock were increased. The point I am trying to make is that the issue is as to whether there should be this relation so the issue in that case is exactly as the issue in this case today.

MR. FRAWLEY: As I said, my Lord, we quite disagree with my friend's interpretation.

MR. EVANS: I am not arguing the case.

THE CHAIRMAN: Who was arguing for the change, the eastern manufacturers or the western manufacturers?

MR. EVANS: The provinces of Alberta and Saskatchewan and the western packing houses, Gainers Limited, and, I think, Swifts too, who had a plant in Alberta, and the eastern packers, of course, appeared in opposition as did the railways.

THE CHAIRMAN: The eastern packers wanted no change?

MR. EVANS: Yes.

THE CHAIRMAN: Well, what change did the western packers in fact ask for? Did they simply say "We want some location established between these two rates", or "There is a relation now which we think is unfair".

MR. EVANS: They wanted a constant relationship between the rates and the expressed method by which that relationship was to be obtained was by a reduction in the rates on meats.

THE CHAIRMAN: Then this constant relationship was

of a certain proportion then, I suppose?

MR. EVANS: They said here Winnipeg. Winnipeg has a relationship today. Now, as compared with Winnipeg, Alberta and Saskatchewan are at a disadvantage. They wanted the relationship for Alberta and Saskatchewan to be the same as for Winnipeg. That was the prime consideration.

THE CHAIRMAN: That is, they wanted the relationship between shipments on meat and on livestock from Winnipeg east to be extended west to Alberta?

A: Yes, they wanted this constant relationship. Now then, the method, as I say, was to reduce the rates on meat. Now having got that much of the facts, there is one other reference to the facts that I want to draw to the Commission's attention. One of the facts alleged by an eastern packer was that (and this is the quotation from the representative of the eastern packer):

> "I might point out that only a very small portion of the fresh meat and packing house products they will compete against (that is the western packer) in eastern canada is derived from Alberta livestock slaughtered either in Winnipeg or in eastern Canada",

and the Board in the Judgment, as will be seen when the discussion proceeded, felt that that was perhaps an important factor.

Now then, there was an allegation of fact which was not challenged by the eastern packer, that after all he did not get the most of his raw materials from Alberta, and that that, he felt, was a material answer to the question as to whether Alberta had been at a disadvantage. Now, If I may turn to the witness -

THE WITNESS: May I note, Mr. Chairman, just one

fact in connection with that case?

THE CHAIRMAN: Well, if it is a fact, tell us about it.

A: It is a fact, sir, that Burns & Company were one of the people that were requesting that relationship. Before the case was finished Burns & Company withdrew from the case because they had purchased a plant in Winnipeg and they were no longer interested in what you might call strictly the "western situation", but they withdrew from the case. Mr. Innis, as I remember, was the Traffic Manager that handled it for them. They purchased a plant in Winnipeg and they said in effect "If we can get this 146% relationship from Winnipeg, that is where we will process our goods".

Q: What about that then?

A: I think it proves the point, sir, that they were quite convinced they had a very definite advantage in Winnipeg to process Alberta, Saskatchewan and Manitoba livestock for shipment to the East.

Q: Well, are you arguing that there was no advantage?

MR. EVANS: I don't think anyone, as far as my clients are concerned, would ever take the position that an advantage could not be created in the circumstances that Mr. Harries refers to. The only question is whether it seems to me the Board has adequate powers today and whether there should be some directive to the Board to give effect to the reasons to establish these relationships in disregard of the other principles that obtain in the making of rates. Now, the extent to which freight rates affect industry may be open, as a matter of degree, to discussion, but no one can properly say, and I would not properly say, that there is a great advantage in locating at certain places because of freight rates.

(Page 11038 follows)

I may venture humbly to say that it is not a problem which can be solved as readily as some people seem to think it can be. I am about to suggest to you that the powers of the Board and the exercise of the powers of the Board as exemplified in this Judgment are very largely covered by exactly the same considerations that existed in the United States.

THE CHAIRMAN: Do you mean to say, Mr. Evans, as Mr. Frawley has submitted, that the Board would have the power to grant such things?

MR. FRAWLEY: As late as the 30% Case they went over it and made it very clear that they were not arbiters of the National Policy.

THE CHAIRMAN: If they have not any power, what would you propose that they be given power to do or that they should be directed to do as part of the rate structure?

MR. FRAWLEY: First of all, I say they perhaps can have the power but there should be some express provision in the statute to put that aside at least by recommendation from this Commission after having considered it and that in itself in its own momemtum may carry it on.

THE CHAIRMAN: What would you want the recommendation to say?

MR. FRAWLEY: To say that the Board would have as a principle which would guide it, the maintenance of this critical relationship.

THE CHAIRMAN: And which they would be compelled to accept? They may say, "we will have it in mind but we are not going to put it aside".

MR. FRAWLEY: We have a separate brief as to that, my lord. The Board says it is not their business and that they must keep away from anything where industry must be

established.

THE CHAIRMAN: You say they should not keep away from it?

MR. FRAWLEY: That is right; they should consider this critical relationship.

THE CHAIRMAN: Then you would have the Board carry that out? It then becomes more than a regulatory body.

MR. FRAWLEY: That depends upon how much we put upon them.

THE CHAIRMAN: We will explain their powers but curtail their discretion?

MR. FRAWLEY: I would not want to put too much mandatory power on them, but I think something must be done to get rid of the mass of precedents that are there.

THE CHAIRMAN: I think we know what you are seeking.

MR. EVANS: Q. Mr. Harries, in view of what your counsel has just said, I think I want to ask you this question. Do you believe that the powers of the Board should be so extended as to make them in effect arbiters of industrial policy in this country?

A. We believe that that is implicit in the problem of controlling rates which is the Board's problem and the matter of industry location must be considered. If the Board are not arbiters of industrial policy then we maintain that the railways are, and we do not think that is satisfactory.

Q. May I suggest this to you, to the extent that the railways are arbiters of industry location, there is some control over them?

A. Not very much control over them as arbiters of industrial policy.

Q. Do you want the Board to be the arbiter of industrial policy?

A. We say on page 53 of our brief that we submit that the Board should assume an active role in the these matters and the manner in which we expect the Board to act is indicated in our recommendation where we say that these several things should be done. That is our position.

Q. I want to get this clear, and I do not want to be unfair to you. The paragraph that you have been reading from begins with the statement that the Board has held on many occasions that it is not the arbiter of industrial policy. I want you to direct your mind to that and I want you to say whether that is wrong in principle or whether you think it should be changed?

A. We say that the effect of such a decision by the Board is to leave these matters within the competence of the railways, and then go on to say that the railways are unacceptable as arbiters of industrial policy, and then we say that the Board should assume an active role in these matters and we indicate in which way that active role can come about.

Q. You are leaving me without any real result. You have said to me that when the Board is considering these relations between raw material and finished product that it should consider the reasonableness of the rates per se, the question of cost of service and the question of value of service and the question of disturbances of existing relationship. I am merely putting it to you that in this role the considerations which the Board would have to have in mind in considering whether this so-called critical relationship based on

input-output ratio in industry can be given effect too. Having gone that far, I am asking you whether you say that the Board does not consider and give effect to relationship between raw materials and finished products subject to all reasonableness of the rates per se, the question of discrimination and those other elements of rate-making which the Board customarily applies; are you prepared to answer that?

A. I do not think that they have ever considered the relative rates specifically.They have decided essentially the reasonableness per se of the meat rate or the livestock rate and the relative rate has not been of concern to them. They say, "we are not the arbiters of industrial policy", and they do not take that into consideration.

Q. That is exactly what I am trying to get from you. Supposing that here Alberta discusses this question because it comes back to this question of arbiters of industrial policy. I have got from you the fact that the Board must consider the reasonableness of rates, dislocation of industry, discrimination, cost of service and value of service and all of these elements that are in the rate-making picture to-day. Having agreed that they do consider and should consider these things, you come back to me with the suggestion that they find that they are not arbiters of industrial policy. I want to know what is the difference and how far these considerations, which I have described to you, reasonableness, value of service, cost of services, disturbance of industry or discrimination, which of those ---

THE CHAIRMAN: You included dislocation of industry a moment ago.

MR. EVANS: Q. Dislocation of industry certainly

reasonableness of rates per se, value of services, cost of services and discrimination. Having regard to the fact that they must consider all of these things, and you agree that they should consider them, I am asking you what more would have to be added to this to make them arbiters of industrial policy?

A. I have not said that we want to make them arbiters of industrial policy. There is nowhere in this brief that we have said that.

Q. May I take it this way that so far as your brief complains of the Judgment of the Board which say they are not arbiters of industrial policy, you have no complaint of their findings?

A. I do not want them to be.

Q. You have quoted the Board's Judgment where they say they are not, and now I take it that you do not want them to be; you have no complaint of the Judgment which is based on the finding that they are not arbiters of industrial policy?

A. I do not think that follows.

THE CHAIRMAN: I think the brief goes on to say that the Board are not arbiters of industrial policy and that the result of that is that the railways then become arbiters of industrial policy. That is what your brief says. Then your brief goes on to say that therefore the Board should come in and play an active role. What is the role you want the Board to play?

MR. FRAWLEY: The witness has explained that, my lord.

THE CHAIRMAN: The Board says, "no, we are not arbiters of industrial policy", and then you say by saying that that the Board lets the railways be arbiters of industrial policy. You say, "we submit that the Board

should assume an active role." Do you mean that the Board should become itself the arbiter of industrial policy?

MR. FRAWLEY: No, we do not. The witness did explain that yesterday. He took occasion to say it yesterday, and perhaps, he should restate it now as to what he means.

Q. What do you mean when you say the Board should assume an active role?

A. When we say that we think the Board should assume an active role in these matters, what we mean is that there should be changes in the statutes, where necessary, or merely a recommendation that the Board should consider these matters which we bring up in our recommendation. First of all, that in the matter of our raw material-finished products rate, the rate should not discourage or encourage producer location. We say that the Board should concern themselves with this stop-off privilege; that they should concern themselves with rate groups and with developmental rates and the matter of limited competition and those should come more directly under their supervision. We do not want to leave the impression, sir, that we want the Board to be an economic planning body. That is not the suggestion, but we do want them to take a more active role, not a complete role, but we do not like the idea of them almost disclaiming any responsibility and then leaving it up to the railways.

MR. COVERT: May I say something, my lord? I wonder if my understanding is that they say that the Board has said that they are not arbiters of industrial policy, that they say that makes the railways arbiters but what Alberta says that they question the railways the right to be arbiters, and therefore the Board of Transport Commissione should step in and say, "we will bring in a critical relation ship so it will be a neutrality."

The rate should be set so the railways cannot be active. I wonder if that is it? I am trying to shorten it, my lord.

COMMISSIONER INNIS: Q. Do you rule out entirely the possibilities of legislation? Here it has narrowed down to two alternatives, one with reference to the railways and one with reference to the Board. Do you rule out all legislation that may have an effect on the Board? After all, Parliaments have come in in a a number of cases. It has never regarded the Board as a "sacred cow"?

A. I do not think we would rule statutory direction or legislation out in this matter but we feel that if the Board will apply itself to these matters that that will we sufficient.

Q. You do rule it out?

A. In these matters I think on a broader scale it might be necessary.

THE CHAIRMAN: They cannot satisfy in every case. Here you have this case of industries in Eastern Canada who want to use raw materials from Alberta and you have others in Winnipeg and you have other industries in Alberta who want it at home. Do you want the Board to say it would be far better if this material was manufactured in Montreal or to say it would be far better for Alberta if it were all manufactured in Alberta or should they say, "we will set such a rate that it will make no difference to the manufacturer whether they do the work in Alberta or Montreal?

A. This being presented by Alberta ---

Q. That is the role you say the Board should play?

A. Yes.

Q. To always set up a rate which will contain no

difference with respect to location in the country between the user of raw materials in one place and the user of the raw materials in another place.

MR. FRAWLEY: At the moment it would not appear to us that that would require any amendment to the statutes. I would not like to rule out all of the things that we are advocating can be done within the limits of the present Railway Act, and there will be from our submission on Legislation that there must be some changes. And in this matter of industry location, there may be some considerations given to it.

THE CHAIRMAN: That is an incidental matter, or is it the whole matter?

MR. FRAWLEY: In this case of industry location at the moment it does seem to me that the Board can insist upon this policy.

COMMISSIONER INNIS: Are you not asking the Board too much in asking it to reverse its position?

MR. FRAWLEY: Yes; the Parliament might say, "here is a new rule." This is an administrative body and they are not bound by the rule stare decisis, and it should not be too hard to get them to take this attitude.

THE CHAIRMAN: You would have to show them that in exercising this power in equalizing a rate that all of this can be carried on without discrimination and unreasonableness?

MR. FRAWLEY: Yes, my lord, we have some other examples in our other brief.

MR. EVANS: Q. I just want to make this clear. I honestly want help from this witness as to why and what changes he wants. He has told me that he would give some consideration to reasonableness per se, to dislocation, and he has submitted that he would give some consideration to value of services and cost of services and the matter

of discrimination. If you want a change which do you want to subordinate to all of them or part of them; whic of the present principles that you have said should be taken into account should be subordinated in this main question of relationship? If I could get that I would quite content to finish my cross examination. Can you help me on that, Mr. Harries?

A. Yes I think I can. We say in the matter of raw material-finished product - that is the principle right there; that is the prime principle and these others would modify that or supplement it in many instances. They are not antagonistic at all in my understanding of them. It is not a matter of "either" or "or". Many of them are supplementary to this particular principle that we advocate.

Q We have got this much, that all of these present principles would be subordinate to the over-riding matter of established relationship, and if there was a conflict of the present princpples, you would subordinate them to the over-riding thing that would provide you with neutrality?

A. I cannot go along with you when you paint it black or white. If this principle comes in surely the Board is reasonable enough to consider the reasonableness of this.

Q. Are you content to have the Board give whatever weight to any of these factors it might decide to, without interference by direction or statute?

(Page 11051 follows)

A: If it is true that weight feature is established, I think you pretty well have to. They could always turn down an application if it was going to do something which was obviously not in their own good.

THE CHAIRMAN: Now you are going on so far on the matter of rates on raw materials and finished products?

MR. FRAWLEY: Yes sir.

THE CHAIRMAN: We have addressed our minds almost exclusively to livestock and meat. Take copper, zinc, gold, all our natural resources, the raw materials they finish. How would you deal with them? Should they be manufactured, finished products, where they are found?

MR. FRAWLEY: What are you using with respect to the general question, Mr. Chairman?

THE CHAIRMAN: We have to consider all these things, not only livestock.

MR. FRAWLEY: That is true. We have been putting up as a general illustration that which is close to home to us.

THE CHAIRMAN: But you also have petroleum - you have oil?

MR. FRAWLEY: Yes, we have petroleum.

THE CHAIRMAN: And up North you have minerals of various sorts?

MR. FRAWLEY: Yes sir.

THE CHAIRMAN: You have copper, zinc, uranium we are told, you have gold?

MR. FRAWLEY: That is quite far North, yes.

THE CHAIRMAN: Then can't this neutrality of rates apply all along the line? Would conditions always

be so that plants wishing to establish themselves could do it just as well 400 miles north of Edmonton as down in the middle of the province as far as freight rates go, or any other part of the country where perhaps it requires to blend other raw materials with its finished product?

MR. FRAWLEY: Yes, you will recall that Professor Stewart dealt with that in the latter part of his examination. He dealt with the necessary qualifications and that sort of thing. He did answer the Chairman's question. Taking it from the livestock to the general, what is your particular view?

THE WITNESS: In general, sir, we say that the rate relation should not discourage or it should encourage producer location so that with copper refining, for instance, we say that the rate relations should not encourage the movement of the copper ore for 500 or 1000 miles to a point of refining, and we say in connection with petroleum that you should not encourage the movement of the crude oil for 1000 or 1500 miles to the point where it is refined. This should be, it seems to us, from a transportation standpoint and from a general economic standpoint a sound one. That is where it is possible and we have admitted, as Professor Stewart said yesterday, that there are some instances where it is not possible, but where it is possible you could manufacture -

THE CHAIRMAN: Who would decide whether it is possible or not - the Board?

A: Yes.

Q: You would be satisfied with the Board's decision then?

A: Yes.

MR. FRAWLEY: You would feel that it would probably

speak for itself pretty quickly?

A: Yes. That is the thing with this whole proposition. We are not advocating this as a special privilege for Alberta. Ontario and the Maritimes and British Columbia share in it equally as it is in the rate structure. We are bringing it forward before this Commission and using this meat-livestock example only as an example and it is one which we think is generally applicable.

THE CHAIRMAN: All right.

MR. EVANS: Then, I am going to leave this subject after one more question. At the foot of page 44, there is a quotation from the Judgment in this case to which we have been directing ourselves. Now then, I am going to read this to you and then put my question. It is a quotation which appears at the bottom of Page 44 and is an extract from Page 418 in the Judgment in 18 J.O.R.& R. and appears also on Page 22 of the Canadian Freight Association 1588:

> "The equalization above contended for (that is the equalization of these relationships) would involve a rearrangement whereby the combined rates on livestock in and on meat and packing house products outward, would produce through transportation charges equal for all Canadian packers".

Now, is that in effect what your proposal is?

A: This application involved the equalization of all packers at the Winnipeg relationship?

Q: Yes.

A: We do not suggest that anywhere in our brief.

Q: Then what you want to get is as near average equality as you can?

A: Yes.

Q: So in principle that is not very far removed from your present proposal. Now then, I go on to read:

> "As a matter of tariff construction, this would seem to be impracticable, and would resolve itself into an attempt to create such a condition regardless of the reasonableness of the rates per se, or of the anomalies that would be created".

Do I take it then, that Alberta officially disagrees with that finding of the Board?

MR. FRAWLEY: I think it is only fair sir. Immediately following the passage which my friend has quoted, there follows a reference to the Eastern Livestock Cases of 1926 in 144 I.C.C. and as was pointed out yesterday, the Eastern Livestock Case of 1926 was one of a series of cases which finally terminated in 1945 by what was practically a review and a new principle established in the Hormel Case to which attention is given on Page 47 of our brief. I think it is only fair to point out that the Board of Transport Commissioners tied that remark that my friend has quoted to the decision of the Interstate Commerce Commission in 1926 in the Eastern Livestock Case and we have heard about that yesterday.

MR. EVANS: May I have an answer to my question?

A: Yes.

THE CHAIRMAN: Before you answer, at what Page of the brief are you?

MR. EVANS: The bottom of Page 44. They have quoted this.

THE CHAIRMAN: All right, go on.

THE WITNESS: May I answer the question?

THE CHAIRMAN: Go on.

A: In view of the fact that they have been doing what we suggest now for at least fifty years in the United States, we would disagree with what the Board of Transport Commissioners says in the paragraph to which you refer.

MR. EVANS: You disagree merely on the question of whether it would be practicable?

A: I commented on the first sentence before, so there is only one sentence left, and I am commenting on that now, and it says that this would seem impracticable and so on and so forth, and I disagree with that on the basis of the fifty years experience in the United States.

Q: Now then, how about this quotation further up referred to on the same page:

> "While I am not convinced of the necessity, nor indeed the propriety, of establishing a percentage relation between these two sets of rates, nevertheless, it is not difficult to see that a condition could arise in which special rates on livestock being accorded to eastern packing companies, would operate to the disadvantage of western packers in marketing their finished products .."

What do you say about that? Do you disagree with that?

A: Do you mean that first sentence?

Q: Yes.

A: Where they say "nevertheless it is not difficult to see .."?

Q: Do you want me to read it to you again, because really I am getting tired of reading these things over and

over again:

> "While I am not convinced of the necessity, nor indeed the propriety, of establishing a percentage relation between these two sets of rates, nevertheless, it is not difficult to see that a condition could arise in which special rates on livestock being accorded to eastern packing companies, would operate to the disadvantage of western packers in marketing their finished products in competition with eastern packing houses"

Now then, what part of that sentence would you agree with or quarrel with as to the attitude of the Board and I am trying to test you?

A: Well, I would disagree with the part of the statement which says - I don't know how I can disagree with it. I am not going to comment on it.

Q: The point I am suggesting to you is that the Board have in mind that there were some advantages and disadvantages because of the lack of the relationship, and after considering this whole question they were not convinced of the propriety or the necessity of establishing the relationship and in fact I am suggesting to you that your difference with the Board is that you just do not like their Judgment?

A: Well, I am suggesting that that is not the case, sir.

Q: All right, I will accept that answer.

A: Our case does not hang on this Judgment or on any other one Judgment in here, and more particularly on one sentence in the Judgment.

Q: I am only taking your own quotation, Mr. Harries.

Then at Page 45 in referring to the same case you say:

> "The application was rejected because the learned Chief Commissioner was not convinced that the rate relation complained of was discriminatory as far as the western plants were concerned"

Now then, having regard to the discussions we have had, do you not now want to qualify that comment as indicating that the sole consideration by the Board in that case was as to whether it was discriminatory?

A: I do not indicate that that was the sole thing. The next sentence says that there was another reason.

Q: Oh yes. Then do you mean that it would be discriminatory or that it would be impractical?

A: I think those are the two primary reasons for not granting this application.

Q: You do not know in fact about the reasonableness or whether it would, in the words of the Chief Commissioner, have been proper. Now then, is it your view that in the United States the law is materially different in this respect or that merely the attitude and findings of the Commission are materially different?

A: To my attitude it is essentially the manner in which the Commission in the United States has interpreted these powers under the law, although, as I understand it, there are some differences in the law.

Q: Well, do you not agree with me that the Interstate Commerce Commission has considered that it is not the arbiter of industrial policy? Would you say the Interstate Commerce Commission has been different in that respect?

A: I don't know.

Q: Would you say that they have not looked upon the relationship and the reasonableness of rates per se as the prime considerations?

THE CHAIRMAN: Would this "per se" mean towards the carrier?

MR. EVANS: Yes, towards the carrier and the shipper - the rates in themselves. Both must be satisfied; the rates must be reasonable to the shipper and to the carrier. Now, is it your view that they have not made that a prime consideration in this case?

A: I am sorry, I don't remember what "that" refers to.

Q: The reasonableness of rates.

MR. FRAWLEY: Per se.

A: Is it my opinion that the Interstate Commerce Commission have not given consideration to reasonableness?

MR. EVANS: Prime consideration.

A: They have considered reasonableness.

Q: Have they not given prime consideration to those two things - reasonableness and questions of whether discrimination existed?

A: It depends upon the case with which they are dealing.

Q: Now then, the Commission will find reported in the same Judgment a number of decisions by the Interstate Commerce Commission. I won't pause to review them, but I think the quotations from the Judgments are quite important, and they begin at Page 22 of the Canadian Freight Association Decision in this meat and livestock case, and they continue for four pages ending on Page 25.

MR. FRAWLEY: It is hardly necessary to say they were all prior to 1928.

MR. EVANS: Yes, and there has been no change in

the law either. Now then, at the top of Page 52 you said this:

> "Our contention is that geographic, climatic, and economic conditions are in reality of primary importance in assessing the reasonableness of a toll, because reasonableness must be related to the value of the service given to a commodity"

Now then -

THE CHAIRMAN: Where is that?

MR. EVANS: At the top of Page 52 at the beginning of the page. Is it your view or the view of Alberta that the statute should say that in determining the reasonableness of tolls the Board should give prime importance to geographic, climatic, and economic conditions?

A: No.

Q: Then, do you qualify that sentence at all?

A: Well, we are not making any recommendation that the statute should say it. That does not mean that it is not our opinion.

Q: Well, how are you going to ensure that the Board should give effect to your opinion unless (a) you change the statute or (b) you argue it to the Board? Why come here?

A: It is just a statement in the brief. It does not involve any statutory change because we make a statement.

THE CHAIRMAN: You say "our contention is ..". What do you want us to do about it?

A: Throughout this section, sir, we were just taking what we considered to be some of the important Judgments of the Board in the matter of market rates and

commenting upon them and then coming up with the conclusion on Page 53 that the Board should assume an active role in these matters.

Q: You mean then that the Board's role should consist of giving primary importance to geographic, climatic, and economic donditions?

A: The Board, sir, has treated rates made to meet market competition in the same fashion as they have treated competitive rates to meet carrier competition, and we say that they should, in connection with rates made to meet market competition, go one step further and require that certain things be done and shown, and in this particular case we were showing that geographic, climatic, and economic conditions are related to reasonableness and that the Board is concerned with reasonableness and, consequently, it would follow that they were concerned with the market competitive rates which, in our opinion, could only be made where climatic, economic, or geographic conditions are different between different places. That is what I believe, sir, it was our intention to show there.

COMMISSIONER ANGUS: Are we, in accordance with your recommendations, to suggest amendments to the Act, or are we to say that if such is the case we agree with the criticisms you are making of the actions of the Board or to admonish the Board? What is it you want us to do?

MR. FRAWLEY: If I may answer that, sir, I would say that in some instances we would ask the Commission to recommend that there be changes in the legislation and then, as I have said more than once, in other instances it would be quite sufficient if the Board expressed it in the way you put it by agreement with the criticisms

you have heard of the Board and that that by itself (when I say "criticisms" I am certainly using it in the broad sense) and that that of itself would carry the necessary prestige and weight that the changes would be brought about. We merely advocate a change in the attitude of the Board by Parliament, if necessary.

MR. EVANS: That would involve this Commission going into the transcript of the proceedings and reading all the facts and circumstances and the stand that the Board had taken to determine whether the Board was right in finding as it did in a series of decisions.

MR. FRAWLEY: I certainly cannot agree with that.

THE CHAIRMAN: I imagine the immediate question here is to establish your relationship between raw material and finished product, and Mr. Harries told us this morning that that relationship should be established even if the result was to bring about a non-compensatory rate on the railways.

MR. FRAWLEY: I am going to re-examine, with your Lordship's permission, on that point.

THE CHAIRMAN: If the Board is to give weight to the considerations you advance, and I was giving weight to granting con-compensatory rates, that is, compel the railways to carry goods at less than the carriage is worth, the next question is, who is going to pay the difference. Mr. Harries said the general shippers throughout Canada for one thing. Would you favour subsidy as another way?

MR. FRAWLEY: No, I would not, sir.

THE CHAIRMAN: You will not forget to deal with that?

MR. FRAWLEY: Yes, I will deal with that.

THE CHAIRMAN: Since your contention by Mr. Harries

goes so far as that. He goes so far as to say that he wants this done even if the result is to provide non-compensatory rates in shipment of finished products.

MR. FRAWLEY: Yes, I am going to deal with that.

(Page 11061 follows)

THE CHAIRMAN: Then you must tell us what it is about.

MR. FRAWLEY: As soon as Mr. Evans has finished, I will ask some questions about that.

THE CHAIRMAN: I can rather imagine that what the Board said is considered unreasonable.

MR. FRAWLEY: You say that the Board has said that?

THE CHAIRMAN: The word "unreasonableness of rate". I suppose that sort of a rate is the kind of rate which, prima facie, you say is not reasonable. That may be what the Board has in mind in deciding these cases. For instance, we have all [illegible] the Maritimes Freight Rate Act whereby a provision is made to enable to producers of products to get barriers around the railway traffic barriers and getting into their markets, and this provision is made so that they are carrying it at lower rates. Do you want something of that sort?

MR. FRAWLEY: No, sir.

THE CHAIRMAN: Then if you do not, you must be careful what you do with the rates.

MR. FRAWLEY: I agree with that, my lord.

MR. EVANS: Q. May I go back to this quotation from your brief at the top of page 52? You have said:

"Our contention is that geographic, climatic and economic conditions are in reality of prime importance in assessing the reasonableness of a toll, because reasonsableness must be related to the value of the service given to a commodity." Then your next sentence is: "We further contend that, in the past, insufficient recognition has been given by the Board to this question." May I get from you that if a rate is found to be reasonable in one climate or position in geography that that rate might become unreasonable in another portion of the country and in another climate?

A. Yes, I think that is true.

Q. And what would you do in a situation like this? Let us suppose in an area where there was quite lot of poverty and the economic conditions were at a low ebb, where the cost of transportation was high, would you make a different rate in that locality depending upon the fluctuating economic conditions obtaining as part of it?

A. That is dealt with in our General Rate Brief. An example of what I mean here is the fact that you may have to have a competitive rate because of geographical counditions, a lake or a canal, and that is a reasonable rate in those circumstances, and you may have a rate that is twice as high in Western Canada which may be reasonable out there. It depends upon the geographical conditions.

Q. It depends upon competitive conditions?

A. There would be no competition if you did not have the lake to run the boats on.

Q. Then, at least you do not want under conditions merely of different geographical position a different standard of rates quite apart from competition?

A. Those all taken together are one detriment to reasonableness.

Q. I want to get the extent to which you use that. You gave me an example of one situation where there was a lake. I want to get you to the point where the transportation is exactly the same but because of some geographical situation a different standard of reasonableness would apply as compared with another area. If you happened to go that far you have to do so-and-so?

A. The geographical situation is the fact that you are moving something a thousand miles which makes a difference in the reasonableness of the rate compared to

moving something fifty miles.

Q. How bbout climatic conditions; would climatic conditions relate to cost of service?

A. Climatic conditions, for example, affect all the agriculture in the area. If you have very different types of climatic conditions, variability and fluctuations in production and different things like that, one rate that may be reasonable in one instance is unreasonable in another instance.

Q. You say as to transportation costs you would have to lower the rate where the climatic conditions are difficult for agriculture to the rate in an area where you do not have the difficulty of climatic conditions?

A. That is one of the factors.

Q. I was trying to get down to where we do not have anything but climatic conditions. Would you give effect to climate as affecting the productivity of the soil in a test as to the reasonableness of the rate?

A. That would be one thing that you could consider.

Q. What about economic conditions;would you take into account the relative poverty of an area in testing the reasonableness of the rates, assuming the cost of operation and operating conditions were the same?

A. Take Canada and United States; different economic conditions between the two countries. That is one of the reaons why you cannot compare American and Canadian rates in reasonableness.

Q. You want the Board to do something. I am trying to see what you want the Board to do. You say you want them to give more consideration to these necessary things that we are talking about in Canada.

all thing being equal, would you give a different standard of reasonableness in a community or province or area where the economic conditions were lower than in another?

A. It depends upon how much lower they were. If they were very much lower if would influence value of service.

Q. What would you do when there were fluctuating conditions; would you have reasonableness of rates in testing by fluctuating conditions?

A. How long are the fluctuations?

Q. I am asking you what you want?

A. Rates are not established to cover fluctuating economic conditions.

Q. I know how rates are fixed to-day, but you want that rate-making machine changed, and you want these things given effect too, or you might just say that you do not?

A. I won't because we said there was insufficient recognition given to these. What we were thinking of, as I have tried to explain, that in connection with rates to meet market competition, the Board says it is concerned with the reasonableness of the rates. Market competition must be due to climatic or geographic or economic conditions which differ, and secondly, different aspects as to how you can consider reasonableness as related to these things, and then overlook market competition in actual areas because you are closer to the market than the other fellow or you are farther away or you have water transportation. That is my point.

Q. I am very sorry that we have to get at cross-purposes. When you make a speech and do not pay

attention to the question we have to go back. I asked you if you would apply a different standard of reasonableness depending uppn different economic conditions obtaining in different areas?

A. No.

Q. You would not?

A. No.

MR. O'DONNELL: May I just ask a few questions, my lord?

CROSS-EXAMINED BY MR. O'DONNELL:

Q. Mr. Harries, this business of rate grouping that you refer to on pages 38 and 54 of your brief, the Board has the power of discretion as to group rates, has it not?

A. Our submission is that the principle ---

Q. Will you say that the Board has the power to order in rates of that type and also to order them out?

A. Yes.

Q. In these circumstances you know that in the West there have been group rates for many, many years particularly with respect to coal?

A. Yes.

Q. I think you addressed your remarks concerning rate groups to the vegetable processing plant at Magrath?

A. That is right.

Q. You have never made an application to the Board of Transport Commissioners for group rates concerning theareas that you suggested should be blanketed?

A. It has been brought to the attention of the Board but there has been no application that I am aware of.

Q. No formal application for the declaration and establishment of group rates in that area that you mentioned?

A. No, not that I know of.

Q. Now as to rate relations. As I understand it, your suggestion is that one of the factors that should be considered when rates are being established is ---

THE CHAIRMAN: What page is that?

MR. O'DONNELL: I do not know, my lord. This is a matter of critical relationships as one factor that you suggest that the Board should take into consideration when establishing just and reasonable rates?

THE CHAIRMAN: Does the term "rate relationship" apply only to rates on the raw materials and rates on finished products?

MR. FRAWLEY: The way we are using that example, we are confining ourselves to that, my lord.

MR. O'DONNELL: I will confine my question to that type of thing?

A. Yes.

Q. That is merely one of the many factors that the Board should take into consideration when providing rates under section 325 (5) of the Railway Act?

A. No.

Q. Why do you not agree with that?

A. Because I do not think that they do that.

Q. Will you agree upon the provisions of the section that it is possible for them to do that because the powers in that section are more broad and there are virtually no restrictions on the Board with respect to what it must consider when arriving at just and reasonable rates?

A. We agree, Mr. O'Donnell, that the powers of

the Board to-day would probably allow them to do almost anything in this regard as to what we suggest. However, the broad powers we suggest that, in fact, they have not done these things and our recommendation is that they should consider those in the manner in which we have stated or suggested.

Q. Well, that may be so in the light of its stand but you suggest that they have not done so?

A. I suggest that they have not given sufficient attention to it.

Q. In any event, we can agree that in the law as it stands to-day, the Board is free to consider that type of thing?

A. Yes.

Q. As I further gather, it would permit that a favourable relation is not always granted, and that is your objection?

A. Where do we get the word "favourable"?

Q. On page 45 you say something about a favourable relation: "in these livestock cases the contention that there should be a favourable relation between the rates on Alberta 'export' meat and 'export' livestock was rejected." In other words, the relation that was contended for there was not accepted and was rejected. That is what disturbs you and that is why you do not agree on the findings on that case?

A. No, I think if they had granted meat-livestock relation we could still come forward and ask for this principle that we have requested;

Q. All I am pointing to or trying to get clear on is that you agree that the Act as it stands at the present time does not give a good relation in that respect and the Board has the power to consider this

critical relationship that you have spoken of?

A. I would not agree with you that the Act does not have that meaning.

Q. I suggest that you told me at the beginning that you agreed that the Act as it stood permitted consideration of critical rates relationship by the Board in establishing rates?

A. The fact that the Board has the power, I would suggest, sir, is not any reason for not doing something to the Act which may affect the purposes of drawing their attention to this particular consideration.

Q. If the Act, as it stands at the present time, permits that and the power is there, then there is no need to amend it?

A. I would not agree with you.

(Page 11070 follows)

Q: You say that the Board does not consider critical rate relationships when fixing rates?

A: Yes, I think as a general principle it does not.

Q: Now, you have talked a lot about these agreed charges, and I presume you are familiar with the McColl-Frontenac agreed charge?

A: Yes, we quote it.

Q: Did you examine the record and look into the details?

A: I have examined part of the record.

Q: Did you find in examining the record in that case that the Board made, what I suggest, was quite a definite detailed study of the critical rate relationship between crude oil and the finished product - between crude oil and gasoline? Didn't they go into that in considerable detail in that case before they approved the agreed charge?

A: They went into that problem in that case, as I remember it, to determine which point was the lowest rate which they would have to charge, or which they chould charge for that movement. They were not going at it with the idea of industrial location at all.

Q: No, I am simply saying to you that the Board in connection with carrying out its duties in connection with establishing the rate between raw materials and finished products, is not precluded under the law from considering this critical rate relationship you speak of, and, in fact, in the McColl-Frontenac Case they did study that very thing?

A: I have never said they were precluded from considering that relationship.

Q: Then, will you agree with me that in the

McColl-Frontenac Case they did establish or did consider that very type of thing, that is, the relationship between crude oil and the finished product, gasoline?

A: That they looked at the input-output ratio?

Q: Yes.

A: That is correct, they did.

Q: And in so doing they looked at it not only with respect to one gravity of crude oil, but several gravities?

A: Two or three.

Q: And they considered that very type of thing?

A: Yes, they did.

Q: And in these circumstances that was what caused me to wonder really at your saying that the Board did not do that sort of thing?

A: I said in establishing rate relations they do not consider a critical rate relation and I submit that the McColl-Frontenac Case where they looked at the input-output ratio does not alter that.

Q: But they did go into the relationship on the crude oil and processed or finished article?

A: They examined the input-output.

Q: And they could have determined from that examination, had there been any need so to do, a critical rate relationship, as you chose to term it?

A: They certainly could have.

Q: And they might do so in any other case as well as the case that I mentioned to you, crude oil and petroleum products?

A: Yes, they might.

Q: That is all I wanted to know. Now, your suggestion, as I get it, is that some emphasis should be given to a study of critical rate relationships in

establishing rates?

A: Our suggestion is that producer location should be encouraged or not discouraged.

Q: And in the course of encouraging and not discouraging you want this study or a more emphatic study of critical relationships to be made by the Board?

A: No, we do not. We want the Board to be ready to hear a complaint of a man who comes in and says, "Because of rate relations I am situated in the area which produces the raw material and am unable to ship out the finished product in competition with people who are situated in the market and using that same raw material". We want the Board to hear evidence from these people who would come before them in those circumstances.

Q: Isn't the Board there at this time to hear that type of complaint?

A: The Board has the power to adjust the rate.

Q: Then what do you ask this Commission to do in the circumstances?

A: We think, Mr. O'Donnell, that there should be a recommendation from this Commission which deals with the matter we raise on Page 54 in the second paragraph under A. Whether that would be a recommendation that the statute be altered and so on is something which Mr. Frawley will speak to.

Q: Now that type of thing - I understand, Mr. Chairman, that it was the intention of the Board to adjourn at 4:20?

THE CHAIRMAN: Yes, we have to adjourn now.

MR. SINCLAIR: Mr. Chairman, before you adjourn you asked this morning for the citation on the Inland Steamship Case.

THE CHAIRMAN: Where is it referred to?

MR. SINCLAIR: Well, it was this morning that Mr. Evans was talking about a parity on export rates through Montreal, and the machine basis, and the case is Inland Steamships v Canadian National Railways and Canadian Pacific Railway reported in 1941, 52 Canadian Railway Transport Cases 293.

THE CHAIRMAN: Thank you.

--- At 4:20 p.m. the Commission adjourned to meet again on Friday, December 2nd, 1949, at 10:30 a.m.

CAMILLE ARCHAMBAULT

appelé.

INTERROGE PAR:

Me. Desmarais:

Q. Quel est votre prénom, M. Archambault?

R. Camille Archambault.

Q. Vous demeurez à Montréal?

R. A Ville Mont-Royal.

Q. Vous êtes le secrétaire de l'Association du Transport par Camion, Inc., du Québec?

R. Le secrétaire-gérant, oui.

Q. Depuis quand?

R. Depuis sa fondation.

Q. C'est là votre seule occupation?

R. Oui, monsieur.

Q. Maintenant, votre Association fait partie de la Canadian Automotive Association?

R. Absolument.

Q. Vous avez approuvé le mémoire présenté par cette Association?

R. Nous l'avons approuvé.

Q. Combien de membres y-a-t-il dans votre Association?

R. Il y avait 618 membres en règle à la date de la semaine dernière.

Q. Quand votre Association a-t-elle été fondée?

R. En 1944; elle est le fruit de la fusion de quatre associations de camionnage alors en existence.

Q. Je comprends que vous avez, ce matin, une déclaration à faire à la Commission?

R. Oui, monsieur.

M. le président, MM. les commissaires,--
Au nom de l'industrie du transport routier, de la province de Québec, que j'ai l'honneur de représenter devant votre Commission, je désire respectueusement répondre à certaines affirmations déposées devant vous par les représentants des compagnies de chemin de fer.

Ils ont laissé l'impression que le camionnage soulève un problème et qu'il y aurait lieu de limiter ses activités.

On a prétendu entre autres que nous recevons des subsides publics, que nous n'opérons que durant la belle saison, que nous choisissons la marchandise à être transportée, que nous ne pouvons opérer à profit sur de longs parcours.

Le public est libre de choisir le moyen de transport qu'il désire. La préférence marquée des expéditeurs pour le camionnage est une preuve évidente qu'il est considéré plus rapide et moins coûteux.

Les chiffres à ce sujet sont éloquents. Alors qu'il y avait au Canada, en 1920, 231,046 wagons de chemin de fer en service, il n'y en avait que 170,330 en l'année 1944.

La situation est compréhensible. Les camions peuvent offrir un service que les chemins de fer ne peuvent assurer. Les trains ne peuvent faire la livraison que d'une gare à l'autre, mais les camions de porte en porte et de fermes en fermes.

Lorsque nous avons amélioré les conditions de transport, nous avons amélioré les conditions de vie de tous les citoyens. Le transport automobile favorise

la décentralisation de la population et une meilleure localisation des industries.

Le transport par camion augmente le bien-être de toute la population, en rendant possible une meilleure diffusion des services sociaux, en faisant disparaitre l'isolement des localités rurales, enfin il rend plus efficace notre système de production et de distribution en favorisant la baisse des prix.

Par la rapidité et la fréquence des voyages, nous avons permis à l'acheteur de réduire les inventaires, et au manufacturier de régler la production sur les commandes plutôt que de maintenir des stocks élevés. Nous avons diminué les formalités d'expédition et les risques d'avaries.

Lors d'une enquête il a été démontré que sur 23,008 expéditeurs 65% favorisaient le transport routier plutôt qu'un autre. La raison donnée est que le service est plus rapide et plus flexible.

Au point de vue d'emploi, nous sommes supérieurs au chemin de fer, car il nécessite au moins un homme pour transporter une moyenne de neuf (9) tonnes de marchandises, tandis qu'un convoi de chemin de fer peut transporter près de 900 tonnes avec quatre (4) employés. Dans la province de Québec nous avons près de 21,000 employés directs dans l'industrie du transport routier.

Dans la province de Québec il existe que 4,674 milles de voie ferroviaire, alors qu'il y a 39,649 milles de réseau routier. De plus le chemin de fer ne livre pas tout le long de son parcours.

Comment les chemins de fer espèrent limiter nos activités sans venir à l'encontre de l'intérêt public.

Les chemins de fer ont parlé de subsides, mais ils ont dénaturé les faits et renversé les rôles. Ils réclament que les camionneurs soient appelés à défrayer une plus grande partie du coût d'entretien des routes.

Mais ils oublient qu'ils ont reçu plus de 50 millions d'acres de terre, gratuitement, plus $200,000. d'octroi et la garantie de un milliard du gouvernement, pour leurs obligations.

Ils oublient que c'est le contribuable qui est appelé à payer leur déficit d'opérations.

L'entreprise privée du camionnage n'a jamais reçu un sou de qui que ce soit pour ses opérations et il est satisfait de son sort.

Nous payons notre quote part de l'entretien et la construction de routes. Le fait est que les budgets provinciaux de voirie ont toujours été moindres que les revenus provenant de la route. Durant les années 1941-42-43-44, par exemple, une moyenne de trois millions de dollars par année ont été pris de la voirie pour être appliqués aux oeuvres publiques, comme les hôpitaux, orphelinats, etc.

Depuis cette date la province de Québec perçoit la taxe de guerre de trois cents le gallon que le gouvernement fédéral avait établie sur la gasoline. Ses revenus ont conséquemment augmenté. Cet automne, les revenus de la voirie étaient de $12,500,000. pour l'enregistrement des véhicules et de $26,550,000. pour la perception de la taxe sur gasoline. Les camionneurs publics ont payé seuls

près de onze millions de dollars de ce revenu provincial.. Le camionnage contribue plus que quiconque au coût d'entretien et de construction des routes.

Les chemins de fer prétendent que nous opérons que durant la belle saison. Il y a 15 ans cette affirmation était fondée mais les camionneurs ont été les pionniers et promoteurs de l'entretien des chemins d'hiver et en 1946 il y avait dans Québec 8093 milles de routes entretenues l'hiver soit près du double du réseau ferroviaire en entier.

Depuis 1946 la Chambre de Commerce de la province de Québec s'occupe activement du problème et le réseau routier d'hiver augmente d'année en année.

Les camionneurs publics ne choisissent pas la marchandise à être transportée, ils ont conscience de leurs responsabilités. Exemple - ce printemps la route entre Mont-Laurier et Senneterre a défoncé à la suite d'une inondation. Durant près de deux mois elle n'était pas carossable. Les camionneurs opérant entre Val d'Or, Amos, Rouyn, LaSarre et Montréal doublèrent leur millage en passant par North Bay, Ontario, et maintiennent leur service au public en chargeant les mêmes taux.

Depuis plusieurs années, dans la province de Québec des services de transport routier existent sur des distances 300 ou 400 milles et opèrent à l'année à la satisfaction du public, puisque ces camionneurs augmentent le nombre de leurs camions.

Pour conclure je citerai textuellement un paragraphe d'un mémoire présenté au gouvernement de la province de Québec en 1947, par la Chambre de Commerce de la province de Québec:

"Il est évident que les chemins de fer doivent opérer à perte sur certaines de leurs lignes et qu'ils pourraient parfois être avantageusement remplacés par le véhicule moteur. Toutefois, ils ne seront pas autorisés à abandonner leur service, tant que l'entretien d'hiver du réseau routier ne sera pas assuré de façon adéquate. Et pourtant, comme on peut le voir, cette substitution bénéficierait non seulement aux compagnies de chemins de fer, mais aussi à toute la population."

Il ne s'agit pas, par cette déclaration, de favoriser un mode de transport plutôt qu'un autre, mais d'assurer à la population le service le plus économique et le plus efficace possible et de libérer le public des taxes de déficit dû au transport.

Me. Desmarais:

Q. M. Archambault, j'aurais quelques questions à vous poser? Quel est le titre de la loi qui régit le camionnage dans la province de Québec?

R. La loi qui régit le camionnage dans la province de Québec est connue sous le nom de la loi du Transport et des Communications.

Q. En quelle annéeat-elle été adoptée?

R. Elle a été adoptée, il y a plusieurs années. A la dernière session cette loi a été modifiée et l'on a créé une nouvelle régie du transport.

C'est ainsi que depuis le mois d'août 1949 nous avons une régie qui s'appelle la régie du Transport et qui ne s'occupe essentiellement que du transport routier. L'ancienne loi ou régie du Transport s'occupait d'aqueducs, de lignes téléphoniques, etc.

Q. Quel en est le titre?

R. La loi de la régie du Transport et des Communications.

Q. Est-ce que vous avez une copie de cette loi ici?

R. Malheureusement, je n'en ai pas ici mais je pourrais en faire parvenir une à la Commission un peu plus tard.

Me. Desmarais:

Je crois, monsieur le président, que M. Archambault pourrait produire cinq copies de cette loi.

Me. Desmarais:

Q. Vous pourriez en produire cinq exemplaires comme exhibit no. 132?

R. Très bien.

EXHIBIT NO. 132

Cinq exemplaires de la loi de la Régie du Transport.

Me. Desmarais:

Q. Voulez-vous expliquer à la Commission les grandes lignes de cette loi?

R. La loi contrôle, en ce qui concerne le transport par camion, toute personne qui fait du transport pour autrui moyennant une rémunération à l'exception de ceux-là qui transportent du gravier, de la terre, du sable et de la planche.

Q. Pourriez-vous nous dire un mot sur l'application de cette loi, comment elle fonctionne, et sur la procédure à suivre pour obtenir un permis de camionnage?

R. La personne qui désire se livrer à l'industrie du camionnage doit comparaître devant la Régie lorsque celle-ci est en séance publique, et prouver que le service qu'elle désire rendre est de nécessité publique. Cette peesonne doit faire entendre des témoins. Dans le cas où un service de camionnage est déjà en existence, cette personne doit prouver que ce service n'est plus suffisant pour satisfaire aux besoins de la population. Un permis lui est accordé s'il réussit à prouver qu'il y a nécessité. Autrefois, une personne pouvait prouver que le transport par chemin de fer était plus coûteux mais depuis quelques années il n'est plus possible d'invoquer cette raison, la question des taux chargés ne peut plus être prise en considération.

<u>Me. O'Donnell:</u>

Ce sont vos conslusions.

<u>M. Archambault:</u>

Ce sont des faits.

Me. Desmarais:

Q. Pouvez-vous nous citer les différents catégories de permis accordés aux camionneurs?

R. Il y a les permis de transport pour les longues distances et les permis pour transport local; il y en a qui sont cependant restreints quant au nombre d'expéditeurs et quant aux tenres de marchandise.

Q. Pouvez-vous spécifier exactement quels noms on donne à ces différents permis. Je comprends qu'il y a des permis de transport général, de transport inter-urbain?

R. Il n'y a pas, dans la province de Québec, de classification de permis actuellement. Notre Association a demandé qu'une classification soit établie et nous espérons l'obtenir prochainement. Un permis se donne pour tel endroit et les environs, ou de tel endroit à un autre point.

Q. Par exemple, comme faire le transport de Québec à Montréal, de Sherbrooke à Montréal ou de Granby à Montrâl?

R. Oui, à chaque camionneur est désignée une route ou une localité.

Le Président:

Q. Vous avez parlé de tranpport sur de longues distances, pouvez-vous en mentionner quelques-unes?

R. Vous avez des camionneurs qui opèrent de Montréal à Rouyn, de Val d'Or à LaSarre, de Montréal à Lac St-Jean.

Me. Desmarais:

Q. Indiquez les distances.

R. De Montréal il y a 400 milles à parcourir pour se rendre en Abitibi; du Lac Saint-Jean, de Saint Joseph d'Alma, de Jonquières, il y a encore une distance de près de 400 milles pour se rendre à Montréal; de Montréal, en passant par Saint-Pascal, dans le bas du Saint-Laurent, les camions suiventla route, font le tour de la Gaspésie et pénètrent dans le Nouveau-Brunswick. Entre la Gaspésie et le Nouveau-Brunswick par cette route il y a plus de 500 milles de transport continu à faire.

Q. Est-ce que le transport se fait à l'année courante?

R. Oui, monsieur.

Q. Il se fait douze mois par année?

R. Oui, monsieur, douze mois par année.

Q. Est-ce que les taux doivent être approuvés par la Régie?

R. Les camionneurs sont tous obligés de produire une copie de leurs taud et ils doivent s'en tenir aux tarifs qu'ils ont ainsi produits. S'ils veulent apporter des changements à leurs tarifs ils doivent en faire la demande à la Régie, qu'il s'agisse de les augmenter ou de les diminuer.

Q. De fait, est-ce que ces taux sont ceux exigés par les camionneurs pour le transport des marchandises?

R. Ce sont les taux qui sont chargés. Je dois

vous dire qu'il existe une loi en ce qui concerne les tarifs. De fait, elle a toujours existé mais elle n'a été appliquée avec vigueur qu'au printemps dernier. Tous les camionneurs, qui exploitaient un service de transport en 1948, ont été obligés de produire leurs tarifs s'ils voulaient que ceux-ci soient renouvelés.

Q. Est-ce que les taux fixés par la Régie sont des taux maxima ou des taux que les camionneurs doivent nécessairement exiger?

R. Ce sont des taux fixés.

Q. Et vous dites que depuis un an la loi est appliquée avec assez de rigueur?

R. Oui monsieur.

Q. Est-ce que la Régie a des inspecteurs à son service pour visiter les différents camionneurs, pour faire enquête et pour vérifier si les taux exigés sont bien ceux autorisés par la Régie?

R. En 1948 la Régie a envoyé un extrait de la loi relative aux taux, aux tarifs, à tous les camionneurs et ils sont tenus de l'observer. A Montréal la Régie du Transport, depuis un an ou deux, a huit inspecteurs à son service; à Québec, elle en a quatre. Ils ont le devoir de faire la vérification des opérations des camionneurs non seulement en ce qui concerne les tarifs mais leurs opérations en général.

Q. Quel est le nombre des camionneurs, du Québec, qui font du camionnage interprovincial et international?

R. 680.

Q. Maintenat, de quelle façon sont régis les camionneurs qui, par exemple, opèrent de Montréal à Toronto?

R. D'abord, ils sont obligés d'obtenir un permis de la Régie sur lequel il est indiqué qu'ils font du transport à Toronto. De plus, ils sont obligés de produire leurs tarifs.

Q. Pour le transport de Montréal à Toronto?

R. S'il s'agit de marchandises en provenance de la province de Québec et destinées en-dehors des frontières, ils doivent quand même charger le tarif produit devant la Régie.

<u>Le Président:</u>

Q. Ils peuvent transporter cette marchandise, mais jusqu'à la frontière?

R. Oui, et, s'il est prouvé qu'un camionneur rendu à Toronto charge meilleur marché il pourrait voir canceller son permis.

<u>Me. Desmarais:</u>

Q. Voulez-vous donner quelques exemples de camionneurs opérant sur des longs parcours?

R. Vous avez, à Val d'Or et à Rouyn, le Brazeau Transport, qui parcourt une distance de près de 425 milles pour se rendre à Montréal; vous avez le Magny Transport Inc., à Amos, dont la distance de Montréal est environ la même; vous avez le Boutin Transport à LaSarre qui paroourt environ la même distance; vous avez le Tremblay Express de Jonquières et Lac Saint-Jean qui parcourt lui aussi près de 400 milles;

puis encore dans cette distance de Montréal, vous avez Harvey à Saint Joseph d'Alma, le Beaudet Express à Mont-Joli; d'Anjou à Saint-Pascal de Kamouraska; Veillette de Montréal à La Tuque. Ce ne sont là que quelques-uns de ceux qui voyagent régulièrement de Montréal à ces différents endroits-là.

Q. Quant à la stabilité de cette industrie, avez-vous quelque chose à dire à la Commission. Est-ce une industrie prospère et stable?

R. Vous avez des camionneurs qui existent ou dont l'industrie de camionnage existe depuis 25 ans. Vous avez, par exemple, le Baillargeon Express qui existe depuis au moins15 ans.

Q. Voulez-vous donner à la Commission les noms de certaines industries et le nombre d'années qu'elles sont en opération.

R. Vous avez, par exemple, ces industries qui existent depuis au moins 15 ans: J.B. Baillargeon, Montréal; Adélard D'Anjou, St-Pascal; L. Guilbault, Québec; Lecours Godmer, Mont-Laurier; Delangis Express, Joliette; Ball Bros., Granby; C.C. Warner, Sherbrooke; Jim Lynn, Sherbrooke; Barbeau, Oka; Boyds, Lachute; Roy, Rawdon; Shawinigan Transport, Shawinigan; St-Hyacinthe Transport, St-Hyacinthe; Norman Transfer, Cornwall; Lelland, Sorel; Asbestos Transport, Asbestos.

Q. Avez-vous donné le nombre total de camionneurs dans la province de Québec?

R. Dans la province de Québec, 9860.

Q. Combien de ces camionneurs font du service interurbain?

R. Comme il n'y a pas de classification à ce sujet, il n'y a pas de chiffre que je puisse vous donner. Je dirais, cependant, que les deux tiers font du transport régulier sur de longues distances.

Q. La plupart de ces aamionneurs seraient en concurrence avec les chemins de fer?

R. Oui. Il y en a cependant qui vont là où il n'y a pas de chemin de fer. Vous prenez, par exemple, comme de Montréal à Oka.

Q. Comment se comparent les taux des camionneurs aux taux des chemins de fer.dans la province?

R. Certains camionneurs publient leurs tarifs et chargent exactement le prix du chemin de fer, tel le D'Anjou Express à Kamouraska, le Tremblay Express à Jonquières, le Smith Kingsway. Pour d'autres, leurs taux sont inférieurs aux taux du chemin de fer. Ce sont des taux approuvés par le gouvernement provincial.

Q. Pour les camionneurs de moindre importance, est-ce que ce serait la même chose ou si ce que vous dites là s'applique seulement aux grosses compagnies?

R. Les camionneurs, en général, depuis la guerre se servent à peu près des taux du chemin de fer.

Q. Même en ce qui concerne les petits camionneurs?

R. Oui, même pour ce qui est des plus petits camionneurs. Notre Association a commencé, io y a quelques années, une publicité dans laquelle on enseigne aux petits camionneurs, aux petits artisans, comme on dit, la classifieation des chemins de fer, etc.

[illegible] plus [illegible]

[illegible] pour [illegible]

[illegible] petits [illegible], la [illegible]

des [illegible], etc.

Q. Est-ce que ceci s'applique pour un voyage aller et retour ou seulement dans une direction?

R. Je suppose qu'en général c$est pour les deux directions.

Q. Maintenant, comme question d'intérêt général, il a été suggéré que, pour éviter une concurrence désastreuse, des divers moyens de transport devraient être coordonnés et placés sous le contrôle d'un seul tribunal fédéral pour tout le pays. Votre Association aurait-elle une opinion à donner à ce sujet?

R. Nous n'y voyons pas d'avantage. Nous sommes satisfaits de notre réglementation. Et, surotut depuis quelques années, notre gouvernement provincial a établi une régie spéciale pour contrôler le transport routier. Nous n'y voyons pas d'avantage

Q. Vous êtes en faveur que le transport par camion doit règlementé par..

R. ... par les provinces, oui monsieur.

Q. Vous n'êtes pas favorables à une règlementation par un tribunal fédéral?

R. Nous n'y voyons pas d'avantage.

Q. Est-ce que vous seriez en faveur d'une règlementation uniforme dans chaque province.

R. Peut-être qu'il serait avantageux d'avoir une règlementation uniforme dans chaque province.

Q. Maintenant, est-ce que votre Association a une opinion à émettre sur cette question soumise à la Commission, à savoir: Les chemins de fer devraient faire du camionnage?

R. Notre prétention, c'est ceci: ils ont opéré à perte par rail, ils opèreront à perte par route, et le public sera appelé à payer leurs déficits, à payer les pots cassés.

Q. Pourquoi dites-vous qu'ils opéreraient à perte?

R. C'est peut-être une présomption, mais le fait est toujours là.

Q. Ils ne seraient pas appelés à faireles mêmes dépenses?

R. Cela se pourrait aussi. Je suis d'opinion que l'on garde le même système, qu'il faudrait garder la même organisation. Par contre, je crois que pour ce qui est des chemins de fer, s'ils gardent le même système, ce sera leur perte. Le camionneur prend la marchandise à la porte et il la délivre à la porte et il n'a pas besoin de passer par l'entrepôt ou les gros hangars. Les chemins de fer sont obligés de faire passer la marchandise par les entrepôts autrement ils en peedraient le contrôle et cela occasionnerait une perte de marchandise.

Q. Au point de vue intérê public, croyez-vous qu'il y aurait avantage à ce que les chemins de fer établissent des services de camionnage inter-urbain?

R. Justemnet par intérêt public, je dis qu'il y a danger de perte. Ils demanderont encore des octrois. Il se créera un monopole comme il y a le monopole des chemins de fer.

Q. Il y aurait danger de monopole?

R. Oui, monsieur. Ils feraient une compétition dé-

sastreuse aux camionneurs sur la route, ils prendraient des mesures pour mieux contrôler les jprix et monopoliser la route cmme ils monopolisent le rail.

Q. Maintenant, est-ce que vos observations seraient les mêmes s'il s'agissait d'un service de camionnage complémentaire aux chemins de fer, c'est-à-dire pour assembler la marchandise à être expédiée?

R. S'il s'agissait d'un service complémentaire, pour que la marchandise soit livrée plus rapidement, j'aurais moins d'objection là-dessus.

Q. Il y aurait moins d'objection à cela?

R. Oui. Il faudrait étudier la situation et les faits.

Q. Avez-vous une idée du nombre de camions qui appartiennent aux compagnies de chemin de fer dansla province de Québec?

R. Non, je n'ai pas ces chiffres-là. Mais, il y en a plusieurs centaines.

Q. Est-ce que ces camions sont munis d'un permis de la Régie?

R. Ce sont des camions privés et ils ne paient pas de taxe à la Régie du Transport et des Communications.

Q. Pour quelle raison?

R. En 1941 la compagnie Pacifique Canadien a été appelée à comparaître devant la Régie du temps; Il n'y a pas eu de suite à cela. Les chemins de fer, dans la province de Québec, ont la licence F et ils ne payent pas la taxe que payent les camionneurs publics.

Le Président:

Q. Est-ce que cela s'applique aux deux chemins de fer?

R. Oui monsieur.

Me. Desmarais:

Q. Ce serait peut-être parce qu'ils opèrent seulement dans les limites d'une ville?

R. Non. Il y avait des raisons privées et de fait ils ont été traduits devant les tribunaux sur la question du transport routier qu'ils font.

Q. Est-ce qu'ils chargeaient le tarif des chemins de fer ou des camionneurs?

R. Nous avons fait une cause au Canadien Pacific Express cette année parce qu'il transportait de la marchandise de Montréal à St-Jérôme par camion. Ils ont prétendu, en Cour, qu'ils n'étaient pas obligés de demander un permis à la Régie du Transport. Ils ont été condamnés par le juge pour faire du transport illégal.

Q. Qu'est-ce qu'ils ont fait?

R. Ils ont décidé de se soumettre et ils ont fait application à la Régie.

Q. Ils faisaient ce service dans Montréal?

R. Ils allaient de Montréal à St-Jérôme et desservaient les points intermédiaires.

Me. Desmarais:

Je n'ai pas d'autre question, monsieur le président.

Contre-Interrogé par:

Me. O'Donnell:

Q. Vous avez dit que les camionneurs chargeaient les mêmes prix que les chemins de fer?

R. Je ne dis pas que les camionneurs chargent les mêmes prix que les chemins de fer mais que certains camionneurs chargent les mêmes prix que les chemins de fer surtout depuis l'augmentation de 8%.

Q. Avez-vous déjà examiné les livres des camionneurs pour déterminer les charges qu'ils font?

R. J'ai déjà examiné leurs tarifs qui sont publiés.

Q. Connaissez-vous le Dumont Express?

R. De Lévis, oui.

Q. Avez-vous déjà examiné leurs livres pour savoir s'ils chargent les mêmes taux que les chemins de fer?

R. Non.

Q. Et aussi le Kingsway Transport Ltd., avez-vous déjà examiné leurs livres?

R. Qui va de Montréal à Toronto, l'express Ontario?

Q. Qui va aussi à Montréal, Ottawa. Avez-vous déjà examiné leurs livres?

R. J'ai déjà vu leurs tarifs.

Q. Etes-vous certain que les prix qu'ils chargent sont conformes aux tarifs qu'ils publient?

R. Ce sont les taux déposés à la Régie. Ils sont sensés être les taux des chemins de fer.

Q. Est-ce que ce serait illégal si ces taux étaient plus bas que le tarif?

R. Je l'imagine, s'ils chargent un taux autre que celui déposé devant la Régie du Transport.

Q. Quant à la Montréal-Ottawa Express, avez-vous déjà examiné leurs livres?

R. Non.

Me. O'Donnell:

Je ne veux pas prendre le temps de la Commission mais je demande la permission de déposer comme

exhibit 133 des copies certifiées et des photostats.

Le Président:

Ce sera l'exhibit 139.

Me. Desmarais:

133.

EXHIBIT NO. 133:

Two certified copies of railway rates and eight photostats of freight bills of trucking companies in corresponding commodities.

M. Archambault:

Est-ce qu'il s'agit d'expéditions récentes ou d'il y a 5 ou 6 ans?

Me. O'Donnell:

Non de 1949, - juillet 1949, le 12 et le 13.

Me. Desmarais:

Il serait peut-être bon que le témoin examine ces exhibits.

Me. O'Donnell:

Très bien. L'exhibit 133 comprend 10 factures, c'est-à-dire 8 photostats et 2 copies certifiées par celui qui a payé les marchandises, J.H. Connor and Sons, Ottawa.

M. Archambault:

Pour des poêles ou des machines à laver?

Me. O'Donnell:

Q. Pour des machines à laver?

R. Dans le cas de la Montréal-Ottawa Express c'est peut-être un camionneur qui a un contrat spécial, qui fait une spécialité pour le transport de la marchandise de la compagnie Connor. Il se peut qu'il y ait un taux spécial. Si celui-ce peut opérer avec profit en chargeant meilleur marché,

tant mieux pour le public.

Q. Je dis que vous avez dit que ces camionneurs-là chargeaient le même prix que les chemins de fer?

R. Si la Montréal-Ottawa Express dépose un taux à la Régie pour transporter des poêles et si ce taux est approuvé, ils opèrent légalement.

Q. Ces factures que je vous montre démontrent bien que les montants chargés sont plus bas?

R. Je ne les ai pas vérifiés avec les taux des chemins de fer.

Q. Prenant pour acquis que les chiffres que j'ai démontrés ici sontles prix des chemins de fer, il y a une différence entre ce qui parait sur les factures et le tarif des chemins de fer? C'est vrai?

R. Cela se peut. Je ne connais pas par coeur le tarif des chemins de fer.

CONTRE-INTERROGE PAR:

Me. Frawley:

Q. Il appert que les camionneurs, dans la province de Québec, sont très satisfaits des règlements provinciaux?

R. Surtout depuis quelques années.

Q. Et votre Association ne veut aucune recommandation de cette commisssion au sujet du camionnage dans la province de Québec?

R. Nous ne sommes pas nécessairement contre les recommandations. Il peut y avoir de très bonnes recommandations faites par cette commission-là.

Q. Vous êtes contre des règlements fédéraux pour vos camionneurs?

R. Oui, parce que nous n'y voyons pas d'avantage.

Q. Vous ne voulez pas de recommandation de la part de cette commission-ci sur ce sujet?

R. Nous ne voulons pas de règlementation fédérale.

Me. Desmarais:

Q. Est-ce qu'il y a des camionneurs dans la province de Québec qui s'occupent de la livraison postale?

R. Oui, le transport d'Anjou, de St-Pascal de Kamouraska. On lui a donné le contrat de la livraison de la malle, ce qui se faisait autrefois par le Témiscouata Railway qui aujourd'hui a été acheté par le Canadien National.

Q. Je présume qu'elle se fait entre certaines municipalités où il n'ya pas de chemin de fer?

R. Non, là où opère la Témiscouata Railway le transport de la malle se fait par le transport d'Anjou Enregistré.
